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

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**FORM 10-K**

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

For the fiscal year ended June 28, 2002

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

Registrant's Web Site: <http://www.westerndigital.com>  
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange  
on which registered:

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

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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.

As of September 20, 2002, the aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant was \$795.5 million.

As of September 20, 2002, the number of outstanding shares of Common Stock, par value \$.01 per share, of the Registrant was 193,215,334.

**Documents Incorporated by Reference**

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy Statement for the 2002 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the close of the 2002 fiscal year.

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The Company has a 52 or 53-week fiscal year. In order to align its manufacturing and financial calendars, effective during the three months ended December 31, 1999, the Company changed its fiscal calendar so that each fiscal month ends on the Friday nearest to the last day of the calendar month. Prior to this change, the Company's fiscal month ended on the Saturday nearest to the last day of the calendar month. The change did not have a material impact on the Company's results of operations or financial position. The 2002, 2001 and 2000 fiscal years ended on June 28, June 29, and June 30 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.

## PART I

### Item 1. *Business*

#### General

Western Digital Corporation (the “Company” or “Western Digital”) designs, develops, manufactures and markets hard drives featuring leading-edge technology. A hard drive is a storage device found in most computers that stores data on one or more rotating magnetic disks that provide fast access to data that must be readily available to users of computers or other devices. 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 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 200 GB, rotation speeds of 5400 and 7200 revolutions per minute (“RPM”) and the Enhanced Integrated Drive Electronics (“EIDE”) interface. 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 9 thereto included in this Annual Report on Form 10-K.

#### Industry

*Desktop Personal Computer (“PC”) Market.* According to TrendFOCUS, Inc. (“TrendFOCUS”) quarterly reports for 2002 and calendar year 2001, the desktop computer segment is the largest segment of the worldwide personal computer market, accounting for approximately 75% of global personal computer shipments in 2002. As a result, according to TrendFOCUS, desktop computers were the leading source of demand for hard drives, accounting for more than 71% of all hard drive units shipped worldwide in 2002. Over 89% of Western Digital’s hard drive unit shipments in 2002 were sold to this market. Desktop personal computers for entry level to experienced users are used in both commercial and consumer environments. The demand for both hard drive capacity and unit volume of hard drives continues to grow in part due to:

- continued improvements in desktop computing price to performance ratios;
- continued growth of the sub-\$1,000 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;
- the exchange of increasing volumes of digital content among users across the Internet and intranets with the proliferation of collaborative computing and sharing of audio and video content; and
- the availability of broadband connectivity.

According to a March 2002 report published by TrendFOCUS, the worldwide desktop PC hard drive market (excluding emerging markets) was forecasted to grow from approximately 142 million units in calendar year 2001 to approximately 177 million units in calendar year 2005, reflecting a compound annual growth rate of approximately 6%. Revenue growth is expected to be lower due to the impact of severe price competition. TrendFOCUS also forecasted that revenue from sales of desktop PC hard drives would grow from approximately \$13 billion in calendar year 2001 to approximately \$14 billion in calendar year 2005, reflecting a compound annual growth rate of approximately 2%.

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. Desktop PC’s typically

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utilize the EIDE interface for hard drives. TrendFOCUS estimates that the average capacity sold per desktop unit in calendar year 2001 was 29.1 GB, with 91% of all shipments in excess of 10GB in the desktop segment.

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 outpaced the rate of increase in user demand for such capacity in recent years. This will result in the Company changing its product mix, with an increasing percentage of lower capacity, lower cost hard drives manufactured with fewer heads and disks per unit. The Company believes that even though unit demand will increase, this changing product mix will reduce the average selling price per hard drive unit in the desktop PC market, unless the rate of technology improvements decreases. 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. Accordingly, the Company believes that time-to-market, time-to-volume and time-to-quality leadership with higher capacity drives at attractive price levels will continue to be critical to its future success in serving this market.

Since 1997, the PC industry has experienced an increasing shift toward desktop PC's priced below \$1,000. TrendFOCUS estimates that approximately 67% of all desktop PC's sold in 2002 were priced below \$1,000. These systems typically incorporate lower cost components and, consequently, the average selling price for hard drives to this segment of the desktop PC market has also declined.

The Company believes that two additional factors are impacting the growth of the PC market. First, the Company believes that the United States and Western European PC markets are nearing saturation. In addition, 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 four years. For an additional discussion of changes in the PC market, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

*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, video game console and tape replacement markets. According to a March 2002 report published by TrendFOCUS, the non-desktop PC 3.5-inch form factor hard drive market was forecasted to grow from approximately 4 million units in calendar year 2001 to approximately 93 million units in calendar year 2005, reflecting a compound annual growth rate of approximately 118%. For an additional discussion of the non-desktop PC hard drive market, see Part II, Item 7, under the heading "Risk factors related to the hard drive industry in which we operate."

*Audio-Video Markets.* 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"), 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, it is too early to project the likely size and growth of such market. For further discussion of this product development effort, see Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

*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 2 million units in calendar year 2001, with an expected compound growth rate of approximately 82% through calendar year 2005. In calendar year 2001, Microsoft introduced a new game system called Xbox™ that uses a hard disk drive for game use. Depending on the overall success of the current Xbox™ architecture in the market and perceived advantages due to incorporation of hard drive technology, overall hard drive sales may continue to increase with sales of Xbox™ and other potential manufacturers of game consoles which integrate hard drives

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into future designs. See Part II, Item 7, under the heading “Risk factors related to the hard drive industry in which we operate.”

*Tape Replacement Market.* Traditional disaster recovery and back-up of enterprise data has been done primarily on tape media used in tape libraries, which are devices that enable rapid access to large volumes of data. During the past few years, a new data back-up market opportunity has started to develop with Integrated Drive Electronics (“IDE”)/ Advanced Technology Attachment (“ATA”) hard drives augmenting tape media. This new trend, referred to as “disk to disk back-up,” 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 on IDE/ ATA class hard drives at a faster rate than tape cost reduction trends. While an insignificant part of the overall market in 2002, the use of IDE/ ATA drives as back-up and disaster recovery technology has seen significant attention and product introductions.

*Small Computer System Interface (“SCSI”) Substitution.* In certain circumstances, SCSI hard drives are being replaced by IDE/ ATA hard drives in enterprise storage applications. The Company believes that in calendar year 2002, approximately 10% of the enterprise drive market will utilize IDE/ serial ATA hard drives.

*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 or PVRs, 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’s WD Caviar® and WD Protégé™ hard drive products are designed to serve distinct portions of the desktop PC market. WD Caviar is designed for the advanced performance segment of the desktop PC market and the entry-level server market, and WD Protégé is designed for the value segment of the desktop PC market, the entry-level PC’s and the game console market. In addition, the Company’s WD Performer™ hard drive products are designed to serve the emerging audio-video portion of the hard drive market.

*Desktop PC and Entry-Level Server Hard Drive Products.* The WD Caviar and WD Protégé families currently consist of 1.0-inch high, 3.5-inch form factor products with capacities ranging from 8 GB to 200 GB and rotation speeds of 5400 and 7200 RPM. These products utilize the EIDE interface, providing high performance while retaining ease of use and overall low cost of connection. The type of EIDE interface currently used in all of the Company’s hard drives is ATA/100, which signifies a burst data transfer rate of 100 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 Universal Serial Bus 2.0. 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 develops products for the emerging market for hard drives specifically designed for audio-video applications, such as new digital video recording devices.



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*Non-PC Hard Drive Products.* The Company offers customized design capabilities and unique hard drive technologies for consumer applications; however, where practical, the Company intends to leverage its existing product line architectures for the various products for the audio-video market. The Company is currently offering the WD Performer hard drive product line designed for use in consumer audio-video applications. It also offers products for the video game console market, such as the Microsoft® Xbox™. The Company is also developing hard drives and products incorporating hard drive technology for other consumer electronics products including digital cable set-top boxes and audio-video jukeboxes.

### **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 used in the hard disk drive industry, 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 and 7200 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 which are divided into sectors. The computer sends instructions to the controller to read data from or write data to the disks based on track and sector locations. Guided by instructions from the controller, the head stack assembly is pivoted and swung across the disk by a head actuator or motor until it reaches the selected track of a disk, where the data is recorded or retrieved.

Industry standard interfaces are utilized to allow the disk drive to communicate with the computer. Currently, the primary interface for desktop PC’s is EIDE. Increasingly, work station computers are using the EIDE interface as well. As computer performance continues to improve, the hard drive will need to deliver information faster than this interface can handle. Accordingly, the Company believes that the desktop

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PC industry plans to transition to higher speed interfaces such as “serial ATA” to handle the higher data transfer rates. The Company is working to develop products that will support these higher speed interfaces.

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

Head technology is one of the variables affecting areal density. 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 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 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 related to the hard drive industry in which we operate.”

### **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, system integrators and other resellers.

*Manufacturers.* Sales to manufacturers accounted for 54%, 48% and 55% of the Company’s revenues in 2002, 2001 and 2000, respectively. During 2002, the Company’s major computer manufacturer customers included Dell, Fujitsu, Gateway, Hewlett-Packard, Microsoft, NEC and Trigem. Occasionally, revenues from sales to certain manufacturers account for more than 10% of the Company’s revenues in a particular year. For example, 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 revenues, respectively. During 2001, sales to Dell and Compaq Computer accounted for 16% and 12% of revenues, respectively. During 2000, sales to Compaq Computer accounted for 21% of revenues. 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.

In 2002, the top ten desktop personal computer manufacturers accounted for approximately 52% of all shipments 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

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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 related to the hard drive industry in which we operate" and "Risk factors related to Western Digital particularly."

*Distributors.* The Company uses a select group of distributors to sell its products to small computer manufacturers, resellers, dealers and systems integrators. The Company's major distributor customers include ASI, COS Distribution AG, eSys Distribution, Genuine, Ingram Micro and Synnex. Distributors accounted for approximately 39%, 45% and 38% of disk drive revenues for 2002, 2001 and 2000, 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. Purchase orders are placed and revised on a weekly basis. The Company grants certain of its distributors price protection and limited rights to return product on 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. Major retailers to whom the Company sells directly include Best Buy, Circuit City, CompUSA, Fry's Electronics and Sam's Club. Retailers accounted for approximately 7% of revenues for each of 2002, 2001 and 2000. 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 website.

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 through telephone support and via the Company's website.

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 50%, 47% and 50% of revenues for 2002, 2001 and 2000, respectively. Sales to international customers may be subject to certain risks not normally encountered in domestic operations, including exposure to tariffs, various trade regulations and fluctuations in currency exchange rates. See Part II, Item 7, under the heading "Risk factors relating to Western Digital particularly."

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For additional information concerning revenue recognition, sales by geographic region and significant customer information, see Notes 1 and 9, respectively, 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 website.

### **Competition**

In the desktop hard drive market, the Company has competed primarily with Fujitsu, IBM, Maxtor, Quantum, Samsung and Seagate. Over the last two years, Maxtor acquired the hard drive business of Quantum, Fujitsu exited the desktop hard drive market, and IBM exited the 5400 RPM segment of the hard drive market, decreasing the number of major competitors. In addition, IBM announced in April 2002 that it will sell its hard drive business to a joint venture that is controlled by Hitachi Data Systems.

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 2002 and calendar year 2001, the Company believes that its market share of the 3.5-inch IDE/ ATA market during 2002 increased approximately 6%, from approximately 15% to approximately 21%. In addition, the overall percentage of the desktop market held by Maxtor, Seagate and Western Digital, the top three desktop suppliers during 2002, increased from approximately 74% to approximately 86%.

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 and short product life cycles; 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.

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

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standpoint. Flash memory, a nonvolatile 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 related to the hard drive industry in which we operate.”

### **Service and Warranty**

Western Digital generally warrants its newly manufactured hard drives against defects in materials and workmanship for a period of one to three 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 China 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 recently had engaged a third party to perform a similar service in the United States. However, 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. In 2003, the Company has engaged third parties in Korea and Brazil to process and test returned hard drives. The Company has contracts with 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 without the substantial capital investment associated with actual vertical integration. 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.

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

## **Research and Development**

The Company devotes substantial resources to development of new products and improvement of existing products. The Company focuses its engineering efforts on coordinating its product design and manufacturing processes in order to bring its products to market in a cost-effective and timely manner. Research and development expenses for continuing operations totaled \$120.1, \$113.4 and \$150.7 million in 2002, 2001 and 2000, respectively.

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

## **Materials and Supplies**

The principal components currently used in the manufacture of the Company’s hard drives are magnetic heads and related head stack assemblies, media, controllers, spindle motors and mechanical parts used in the head disk assembly. In addition to 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.

Unlike some of its competitors, the Company acquires all of the components for its products from third party suppliers. In general, the Company tries to have multiple suppliers for each of its component requirements. For example, the Company currently buys giant magnetoresistive heads from ALPS Electric Co., Ltd., Read-Rite Corporation and SAE Magnetics Ltd. Media requirements are purchased from several outside vendors including Fuji Electric Company Ltd., Komag, Showa Denko KK and Trace Storage Technology Corporation; however, 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. In August 2001, Komag announced its voluntary filing for Chapter 11 reorganization, and in July 2002 announced that it had completed its bankruptcy reorganization. Komag continued its operations during the Chapter 11 process. Komag Malaysia, a separate subsidiary which did not file Chapter 11, is the manufacturing entity which supplies Komag’s share of the Company’s media requirements.

Some custom integrated circuits are currently sole-sourced from STMicroelectronics and IBM. The Company has a volume purchase agreement with IBM to purchase the major portion of its read channel chips 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 relating to Western Digital particularly.”

## **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. 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 competence and successful training 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 nonpatented 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 relating to Western Digital particularly."

## **Environmental Regulation**

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

## **Employees**

As of June 28, 2002, the Company employed a total of 9,550 employees worldwide. This represents an increase in headcount of approximately 21% since June 29, 2001 and an increase of approximately 30% since June 30, 2000. 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 1,058 employees in the United States, 6,676 employees in Malaysia, 1,716 employees in Thailand, 19 employees in Singapore and 81 employees at its international sales offices as of June 28, 2002.

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.

## **Item 2. Properties**

During December 2000, the Company relocated its corporate headquarters from Irvine, California to Lake Forest, California, signing a 10-year lease agreement for the Lake Forest facility. The lease for the Irvine facility expired in January 2001. The Company's corporate headquarters houses management, research and development, administrative and sales personnel. The Company leases one facility in San Jose, California for research and development activities. In addition, the Company currently leases one facility in Irvine, California, which was used in 2002 for research and development activities, but which is currently 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 manufacturing facility in Kuala Lumpur, Malaysia and

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acquired a smaller manufacturing facility in Pathumthani, Thailand in January 2002. The Company also leases office space in various other locations throughout the world primarily for sales and technical support.

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.

During 2000, the Company sold approximately 34 acres of land in Irvine, California, upon which it had previously planned to build a new corporate headquarters, for \$26 million (the approximate cost of the land). During 2000, the Company also sold its enterprise drive manufacturing facility in Tuas, Singapore for \$11.0 million (for a gain of \$3.1 million) and its Rochester, Minnesota enterprise research and development facility for \$29.7 million (for a loss of \$1.9 million).

### **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 2002.

### **Executive Officers of the Registrant**

The names, ages and positions of all of the executive officers of the Company as of September 23, 2002 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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Matthew E. Massengill	41	Chairman and Chief Executive Officer
Arif Shakeel	47	President and Chief Operating Officer
D. Scott Mercer	51	Senior Vice President and Chief Financial Officer
Charles W. Frank, Jr.	54	Vice President, Chief Technical Officer
Raymond M. Bukaty	45	Vice President, General Counsel, and Secretary
Steven M. Slavin	51	Vice President, Taxes and Treasurer
David C. Fetah	42	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 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 Mah Lin 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



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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, Finance and Chief Financial Officer.

Mr. Frank joined the Company in 1980 and has served in various engineering, marketing and senior management positions. He became Chief Technical Officer in January 2001.

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 principal in the law firm of Riordan & McKinzie.

Mr. Slavin joined the Company in 1986. He was appointed Vice President, Taxes in October 1990, and elected Treasurer in July 1996.

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 September 10, 2002 was 3,337.

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 2002 and 2001 are as follows:

	First	Second	Third	Fourth
<b>2002</b>				
High	\$4.06	\$6.79	\$7.75	\$7.55
Low	1.95	2.15	5.20	3.07
<b>2001</b>				
High	\$6.44	\$6.81	\$5.94	\$5.58
Low	3.56	2.19	2.31	2.98

**Item 6. Selected Financial Data**

**Financial Highlights**

The following selected consolidated financial data should be read in conjunction with Part II, Item 7.

	Years Ended				
	June 28, 2002	June 29, 2001	June 30, 2000	July 3, 1999	June 27, 1998
	(in millions, except per share and employee data)				
Revenues, net	\$2,151.2	\$1,953.4	\$1,957.2	\$2,767.2	\$3,541.5
Gross profit (loss)	281.6	207.7	9.6	(2.8)	100.1
Income (loss) from continuing operations	53.2	(74.6)	(329.5)	(472.5)	(290.2)
Per share income (loss) from continuing operations:					
Basic and diluted	\$ .28	\$ (.44)	\$ (2.69)	\$ (5.28)	\$ (3.32)
Working capital	\$ 34.8*	\$ 45.4	\$ 6.9	\$ 131.4	\$ 463.5
Total assets	\$ 636.7	\$ 507.7	\$ 613.0	\$1,022.4	\$1,442.7
Long-term debt	\$ —*	\$ 112.5	\$ 225.5	\$ 534.1	\$ 519.2
Shareholders' equity (deficiency)	\$ 102.9	\$ 6.8	\$ (109.8)	\$ (153.8)	\$ 317.8
Number of employees	9,550	7,909	7,321	10,503	13,286

No cash dividends were paid for the years presented.

\* The holders of the Company's convertible debentures have the right to require the Company to redeem the debentures in February 2003 (a "put" right). Based on current forecasts that show the company continuing to generate positive cash flow from operations, the Company now intends to satisfy the majority, if not all, of its put obligations in cash instead of common stock. Accordingly, the debentures have been classified as a current liability at June 28, 2002. See Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading Liquidity and Capital Resources, and Note 3 of Notes to Consolidated Financial Statements.

**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. These statements appear in a number of places in this report and include statements regarding the intentions, plans, strategies, beliefs or current expectations of the Company with respect to, among other things:

- the financial prospects of the Company;
- litigation and other contingencies potentially affecting the Company's financial position, operating results or liquidity;
- trends affecting the Company's financial condition or operating results;
- the Company's strategies for growth, operations, product development and commercialization; and
- conditions or trends in or factors affecting the computer, data storage, home entertainment or hard drive industry.

Forward-looking statements are subject to risks and uncertainties 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 under the headings "Risk factors related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly", in this report, as well as the Company's other reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

**Results of Operations***Summary of 2002, 2001 and 2000 Comparison*

The following table sets forth, for the periods indicated, items in the Company's statements of operations expressed as a percentage of total revenue. This table and the following discussion exclude the results of the discontinued businesses.

	Years ended		
	June 28, 2002	June 29, 2001	June 30, 2000
Revenues, net	100.0%	100.0%	100.0%
Cost of revenues	(86.9)	(89.4)	(99.5)
Gross profit	13.1	10.6	0.5
Research and development	(5.6)	(5.8)	(7.7)
Selling, general and administrative	(5.2)	(5.9)	(6.5)
Restructuring charges	—	—	(4.4)
Total operating expenses	(10.8)	(11.7)	(18.6)
Operating income (loss)	2.3	(1.1)	(18.1)
Net interest and other income (expense)	0.1	(2.7)	0.3
Income (loss) from continuing operations before income tax benefit	2.4	(3.8)	(17.8)
Income tax benefit	0.1	—	1.0
Income (loss) from continuing operations	2.5%	(3.8)%	(16.8)%

*Net Revenues*

Consolidated net revenues were \$2.2, \$2.0 and \$2.0 billion in 2002, 2001 and 2000, respectively. The increase in net revenues in 2002 from 2001 of \$0.2 billion, or 10.1%, was primarily due to an increase in unit shipments of 31%, partially offset by a 16% decrease in average selling prices ("ASP's"). 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. Consolidated net revenues in 2001 were flat with 2000, at approximately \$2.0 billion. Excluding \$141.8 million of revenue in 2000 related to the Company's discontinued small computer system interface ("SCSI") product line, revenue increased \$138.0 million or 7.6% in 2001. This improvement was due to an increase in EIDE drive unit shipments of approximately 19%, partially offset by a 10% decline in ASP's.

*Gross Profit*

Gross profit was \$281.6 million, or 13.1% of revenue in 2002, \$207.7 million, or 10.6% of revenue in 2001, and \$9.6 million, or 0.5% of revenue, in 2000. Gross profit for 2000 included \$72.5 million of special charges, of which \$34.8 million related to costs associated with exiting the SCSI hard drive product line, and \$37.7 million related to costs to repair recalled drives. Excluding special charges, gross profit was \$82.1 million, or 4.2% of revenue, for 2000. The increase in gross profit in 2002 from 2001 was primarily the result of more cost-effective designs and higher unit volume, partially offset by lower ASP's. The increase in gross profit in 2001 from 2000 (excluding the 2000 special charges) was primarily the result of higher volume and lower manufacturing costs due to 2000 expense reduction efforts, partially offset by lower ASP's.

*Operating Expenses*

Research and development ("R&D") expense was \$120.1, \$113.4 and \$150.7 million for 2002, 2001 and 2000, respectively. The increase in R&D expense in 2002 from 2001 of \$6.7 million was due to increases in new development programs and higher employee incentive payments, partially offset by expense reduction

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efforts. The decrease in 2001 from 2000 of \$37.3 million was primarily due to the Company's exit from the SCSI hard drive market during 2000 and expense reduction efforts in its remaining hard drive operations.

Selling, general and administrative ("SG&A") expense was \$110.8, \$115.8 and \$127.0 million for 2002, 2001 and 2000, respectively. The decrease in SG&A expense in 2002 from 2001 of \$5.0 million was primarily due to expense reduction efforts, partially offset by higher employee incentive payments. The decrease in 2001 from 2000 of \$11.2 million was primarily due to the Company's exit from the SCSI hard drive market in 2000 and expense reduction efforts in its remaining hard drive operations.

### *Restructuring Charges*

During 2000, the Company initiated restructuring actions to improve operational efficiency and reduce operating expenses. These actions primarily consisted of a consolidation of the Company's Asian operations and termination of its SCSI hard drive product line. Restructuring charges recorded in connection with these actions totaled \$85.8 million and consisted of severance and outplacement costs, the retirement of manufacturing equipment and information systems assets, and net lease cancellation costs. Also recorded in connection with these actions were special charges to cost of revenues of \$34.8 million for vendor settlements, incremental warranty, and inventory write-downs associated with exiting the SCSI hard drive product line.

### *Interest and Other Income (Expense)*

Net interest and other income (expense) was \$1.4, (\$53.1) and \$4.9 million in 2002, 2001 and 2000, respectively. This includes net investment gains of \$4.8 million in 2002, investment write-offs and related lease contingency accruals of \$52.4 million in 2001, and net investment gains of \$14.8 million in 2000. Excluding these nonrecurring items, net interest and other expense was \$3.4, \$0.7 and \$9.9 million in 2002, 2001 and 2000, respectively. The increase in net expense in 2002 (excluding nonrecurring items) was primarily due to a decrease in interest income as a result of lower interest rates. The decrease in net expense in 2001 (excluding nonrecurring items) was primarily due to lower interest expense on lower average debt balances resulting from the payment in 2000 of an outstanding term loan of \$50.0 million and redemptions during 2000 and 2001 of the Company's 5.25% zero coupon convertible debentures.

Included in 2002's net investment gains is a \$9.0 million recovery from the sale of the Company's remaining Komag investments to a third party. These investments were part of the \$52.4 million nonoperating charge recorded to net interest and other expense during 2001 to adjust the carrying value of equity investments in and notes receivable from Komag and accruals of Komag contingent guarantees, resulting from Komag's announcement to file for Chapter 11 reorganization.

### *Income Tax Benefit*

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. During 2000, the Company recorded an income tax benefit of \$19.5 million to adjust its current and deferred tax accruals. The accruals were established in prior years primarily for the unremitted income of foreign subsidiaries. However, due to the significant increase of net operating loss carryforwards and reevaluation of the accruals after the substantial international restructurings in 2000, the Company believed the accruals were no longer necessary. See Note 11 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.

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### *Extraordinary Item*

During 2002, the Company issued 2.6 million shares of common stock and paid \$17.6 million in cash in exchange for \$72.4 million in face value of its convertible debentures (with a book value of \$31.6 million). During 2001, the Company issued 16.0 million shares of common stock in exchange for \$295.7 million in face value of its convertible debentures (with a book value of \$120.3 million). During 2000, the Company issued 26.7 million shares of common stock in exchange for \$735.6 million in face value of its convertible debentures (with a book value of \$284.1 million). These redemptions were private, individually negotiated transactions with certain institutional investors. As a result of the redemptions, the Company recognized an extraordinary loss of \$0.1 million in 2002 and extraordinary gains of \$22.4 and \$166.9 million in 2001 and 2000, respectively (see also “New Accounting Pronouncements”).

### **Liquidity and Capital Resources**

The Company had cash and cash equivalents of \$223.7 million at June 28, 2002 and \$167.6 million at June 29, 2001. Net cash provided by continuing operations was \$82.8 million during 2002 as compared to net cash used for continuing operations of \$58.8 million during 2001. This \$141.6 million improvement in cash provided by continuing operations consists of a \$79.7 million improvement in the Company’s net income, net of non-cash items, and a \$61.9 million decrease in cash used to fund working capital requirements. These improvements are due to significantly better operating performance by the Company, including higher sales volume, improved cost management, and a lower cash conversion cycle.

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 2002, a 2 day improvement over the prior year. Accounts receivable at June 28, 2002 was higher than the prior year as a result of higher fourth quarter revenue combined with longer average collection days due to the elimination of certain early payment discount programs. 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 \$7.6 million at June 28, 2002 from \$13.3 million at June 29, 2001 as a result of the write-off of fully reserved accounts receivable balances which management determined to be uncollectable.

Other uses of cash during 2002 included net capital expenditures of \$47.7 million, primarily for normal replacement of existing assets and the purchase of assets for the Company’s new manufacturing facility in Thailand, and \$17.6 million for debenture redemptions. Other sources of cash during 2002 included \$9.9 million received from the sale of assets, \$10.2 million received in connection with stock option and warrant exercises and Employee Stock Purchase Plan purchases, and \$0.5 million received by the Company’s subsidiary from minority investors.

Other uses of cash during 2001 included net capital expenditures of \$50.7 million, primarily to upgrade the Company’s hard drive production capabilities and for normal replacement of existing assets. Other sources of cash during 2001 included proceeds of \$15.0 million received upon the sale of marketable equity securities, \$110.5 million received upon issuance of 23.5 million shares of the Company stock under the Company’s equity facility and \$7.1 million received in connection with the stock option exercises and Employee Stock Purchase Plan purchases.

The Company anticipates that capital expenditures in 2003 will not be more than \$65.0 million and will relate to normal replacement of existing assets and expansion of the Company’s new Thailand facility.

Discontinued operations provided net cash proceeds of \$18.2 million in 2002, including approximately \$36.7 million net proceeds from asset sales. This compares to \$39.5 million in net cash used to fund the operating, investing and financing activities of the discontinued operations for 2001.

The Company has zero coupon convertible subordinated debentures due February 18, 2018 (the “Debentures”). The Debentures are subordinated to all senior debt; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and at the holder’s option, will be redeemed by the Company, as of February 18, 2003,

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February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. The payment on those dates, with the exception of a Fundamental Change, can be in cash, stock or any combination, at the Company's option. The Debentures are convertible into shares of the Company's common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity. Since issuance of the Debentures in 1998, the Company has redeemed Debentures with a book value of \$435.9 million and an aggregate principal amount at maturity of \$1.1 billion through the issuance of cash and/ or common stock. These redemptions were private, individually negotiated transactions with certain institutional investors. As of June 28, 2002, the remaining book value of the Debentures was \$86.2 million, the aggregate principal amount at maturity was \$193.5 million and the market value was \$83.0 million. Based on current forecasts that show the Company continuing to generate positive cash flow from operations, the Company now intends to satisfy the majority, if not all, of its put obligations in cash instead of common stock. Accordingly, the Debentures have been classified as a current liability at June 28, 2002. Debentures not put to the Company in February 2003, if any, will be reclassified as long-term debt.

During 2001, the Company entered into a three-year Senior Credit Facility, replacing a previous facility that had matured on March 31, 2000. The Senior Credit Facility provides up to \$125 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation), matures on September 20, 2003 and is secured by accounts receivable, inventory, 65% of the 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 determined by the borrowing base. The Senior Credit Facility requires the Company to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of the date hereof, there were no borrowings under the facility. However, the Company has issued a \$25 million standby letter of credit under the facility to Cirrus Logic, Inc. ("Cirrus") concerning \$25 million in disputed accounts payable. These disputed accounts payable have been recorded in the Company's financial statements, but are part of the Company's litigation against Cirrus (see Note 5 of Notes to Consolidated Financial Statements). The availability under the Senior Credit Facility has been reduced by a corresponding amount of the outstanding letter of credit.

During 2001 and 2000, respectively, the Company issued 23.5 and 24.6 million shares of common stock under preexisting shelf registrations for net cash proceeds of \$110.5 and \$111.8 million. During 2002, no common stock was issued under these shelf registrations and the Company withdrew them as management determined they would not be utilized in the foreseeable future.

At June 28, 2002, the Company had cash and cash equivalents of \$223.7 million, working capital of \$34.8 million (net of the Debentures) and shareholders' equity of \$102.9 million. In addition, the Company has a Senior Credit Facility providing up to \$125 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation). The Company believes its current cash and cash equivalents and its existing credit facility 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 related to the hard drive industry in which we operate" and "Risk factors relating to Western Digital particularly."

## **Commitments**

The following is a summary of the Company's significant contractual cash obligations and commercial commitments at June 28, 2002:

### *Convertible Debentures*

The Company has zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures"). For a description of the Debentures, see the discussion under "Liquidity and Capital Resources".

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### *Operating Leases*

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2010. The following table summarizes the future payments of these leases (in thousands):

	<u>Operating Leases</u>
2003	\$10,131
2004	8,213
2005	7,061
2006	7,004
2007	5,508
Thereafter	19,559
Total future minimum lease obligations	<u>\$57,476</u>

### *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 denominated in foreign currencies. The Company does not purchase short-term forward exchange contracts for trading purposes. As of June 28, 2002, the Company had \$5.0 million outstanding of purchased foreign currency forward exchange contracts. The contracts have maturity dates that do not exceed three months. At June 28, 2002, the carrying value of the contracts approximates fair value.

### **Critical Accounting Policies**

The preceding discussion and analysis of the Company's results of operations is based on its consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets and liabilities. The Company has adopted accounting policies and practices that are generally accepted in the industry in which it operates. Following are the Company's 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.

#### *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 corresponding adjustment for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. Adjustments are based on



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anticipated price decreases, estimated amounts to be reimbursed to qualifying customers, estimated future returns, as well as historical pricing information.

The Company establishes an allowance for doubtful accounts by analyzing specific customer accounts and assessing the risk of uncollectibility 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.

The Company records provisions against revenue and cost of revenues for estimated sales returns in the same period that the related revenues are recognized. The Company bases these provisions on existing product return notifications as well as historical returns by product type (see "Warranty").

### *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, and the warranty periods range from one to three 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.

### *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, estimates of future sales prices, 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.

### *Litigation and Other Contingencies*

The Company applies Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" 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.

### *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 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.

## **New Accounting Pronouncements**

During April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt", which required all gains and losses from extinguishment of debt to be classified as an extraordinary item. The Company will adopt SFAS 145 on June 29, 2002 at which time it will begin classifying gains and losses resulting from the extinguishment of debt as other income and expense, instead of extraordinary items. The adoption will not have a net impact on the Company's results of operations or liquidity.

On September 11, 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-15, "Determining Whether Certain Conversions of Convertible Debt to Equity Securities are within

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the Scope of FASB Statement No. 84, Induced Conversions of Convertible Debt” (“FAS 84”). The EITF deliberated this issue because of diversity in practice in the accounting for conversions of convertible debt to equity initiated by the debt holder. In practice, some registrants accounted for these transactions following FAS 84 while others followed Accounting Principles Board Opinion No. 26, “Early Extinguishment of Debt” (“APB 26”). The EITF concluded that FAS 84 applies to conversions of convertible debt when the offer for consideration in excess of the original conversion terms was made by the bondholder. The EITF concluded that this guidance should be followed for transactions entered into on or after September 12, 2002. The Company’s previous extinguishments of its convertible debentures involving the issuance of stock have been accounted for under APB 26 whereby a gain on early extinguishment was recorded equal to the excess of the net book value of the indebtedness over the fair value of the consideration paid to extinguish the indebtedness. Following the guidance in EITF Issue No. 02-15, similar early extinguishments of the convertible debentures involving stock initiated by the debt holder will give rise to a conversion inducement expense equal to the fair value of the shares issued in excess of those required to be issued upon the exercise of the debenture conversion feature. The Company does not expect EITF Issue No. 02-15 to have a significant impact on the future results of operations because the Company does not expect to use stock to make early extinguishments of its convertible debentures.

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

*Our operating results depend on our being among the first-to-market and first-to-volume with our new products at a low cost.*

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

- consistently maintain or improve our time-to-market performance with our new products,
- produce these products in sufficient volume within our rapid product cycle,
- qualify these products with key customers on a timely basis by meeting our customers’ performance and quality specifications,
- achieve acceptable manufacturing yields and costs with these products, 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 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 to accommodate more data on a single disk. Our failure to bring these new products to market on time and at acceptable costs would put us at a competitive disadvantage to companies that achieve these results.

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

Over the past few years, hard drive areal density has increased at a much more rapid pace than previously experienced. This has significantly shortened product life cycles since each generation of drives is more cost effective than the previous one. Shorter product life cycles make it more difficult to recover the cost of product development.

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

Due to short product life cycles and continuously changing products, we must regularly engage in new product qualification with our customers. To be considered for qualification we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, any failure or

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delay in the qualification process can result in our losing sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume computer manufacturers, most of which continue to consolidate their share of the PC market. These risks are increased because we expect cost improvements and competitive pressures to result in declining sales and 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 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.

*Our average selling prices are declining.*

We expect that our average selling prices for hard drives will continue to decline. Increases in areal density mean that the average drive we sell has fewer heads and disks, 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 average selling prices decline even further when competitors lower prices to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share.

*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 tends to experience periods of excess capacity, which typically lead to intense price competition. During calendar year 2001 and the first half of calendar year 2002, the industry experienced weak PC demand in the U.S. and other markets. 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 revenues and gross profits.

*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, especially those systems priced below \$1,000. 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.

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The PC market is fragmenting into a variety of computing devices and products. Some of these products, such as Internet appliances, may not contain a hard drive. On the other hand, many industry analysts expect, as do we, that as broadcasting and communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics and communication devices will converge, and hard drives will be found in many consumer products other than computers. For 2002, more than 10% of our unit sales were for consumer products other than computers, primarily gaming devices. If we are not successful in using our hard drive technology and expertise to develop new products for these emerging markets, it will likely harm our operating results.

*The market acceptance for hard disk drives in game consoles continues to be uncertain.*

The use of hard disk drives in the game console market is a fairly recent trend. Due to the price competitive nature of the hard disk drive industry, with selling prices of personal computers being substantially higher than game consoles, game manufacturers may not have the ability to either incorporate or continue to incorporate hard disk drives into their overall architecture. In addition, current price reduction demands from either current or future game console customers may not make hard disk drive integration an attractive market for us or other hard drive manufacturers.

*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. We have lost a number of experienced hard drive engineers over the past two years as a result of the loss of retention value of their employee stock options (because of the decrease in price of our common stock) and aggressive recruiting of our employees. 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.

### **Risk factors relating to Western Digital particularly**

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

A majority of our revenue comes from a few customers. For example, during 2002, sales to our top 10 customers accounted for approximately 58% 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 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 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 do not manufacture any of the basic components in our hard drives, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could harm us more severely than our competitors, some of whom manufacture certain of the components for their hard drives, and 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. 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

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September 1999 when we had to shut down our Caviar product line production 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 magnetoresistive recording head technology, and as we did in 2000 as a result of our decision to exit the enterprise hard drive market.

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, in February 2001, we entered into a two-year volume purchase agreement with IBM under which we buy a substantial portion of our read channel chips from IBM. Effective June 2002, we amended the IBM volume purchase agreement to extend the initial term through December 31, 2003. These strategic relationships have increased our dependence on each of Komag and IBM 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 and IBM's ability to supply us with these components or chips, as the case may be, 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 ability to manufacture and supply us with read channel chips could harm 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. 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. We are currently engaged in litigation with Cirrus, which until this year was the sole source of read channel chips for our hard drives. As a result of the disputes that gave rise to the litigation, our business operations were at risk until another supplier's read channel chips could be designed into our products. Similar disputes with other strategic component suppliers could adversely affect our operating results.

*We have only one primary high-volume manufacturing facility, and a secondary smaller facility, which subjects us to the risk of damage or loss of either facility.*

The majority of our manufacturing volume comes from one facility in Malaysia. During 2002, we acquired a second, smaller manufacturing facility in Thailand. A fire, flood, earthquake or other disaster, condition or event that adversely affects either our Malaysia or Thailand facility or 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. It is possible that further acts of terrorism may be directed against the United States domestically or abroad and such acts of terrorism could be directed against properties and personnel of U.S.-owned companies such as ours.

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*Manufacturing our products abroad subjects us to numerous risks.*

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

- obtaining requisite United States and foreign governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest;
- transportation delays or higher freight rates;
- labor problems;
- trade restrictions or higher tariffs;
- exchange, currency and tax controls and reallocations;
- 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 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. 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 we conclude that a claim of infringement is valid, 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.

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

If we do not forecast total quarterly demand accurately, it can have a material adverse effect on our quarterly results. We typically book and ship a high percentage (at times up to 58%) of our total quarterly sales in the third month of the quarter, which makes it difficult for us to match our production plans to customer demands. In addition, our quarterly projections and results may 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 and IBM;
- competition and consolidation in the data storage industry; and
- seasonal and other fluctuations in demand for computers often due to technological advances.

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

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

- accruals for warranty 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;

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- developments with respect to patents or proprietary rights;
- 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 20, 2003. 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 denominated in foreign currencies. The purpose for entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. A majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed three months. The Company does not purchase short-term forward exchange contracts for trading purposes.

Historically, the Company has focused on hedging its foreign currency risk related to the Singapore Dollar, the British Pound Sterling and the Malaysian Ringgit. With the establishment of currency controls and the prohibition of purchases or sales of the Malaysian Ringgit by offshore companies, the Company discontinued hedging its Malaysian Ringgit currency risk in 1999. Future hedging of this currency will depend on currency conditions in Malaysia. As a result of the closure of the Company's Singapore operations in 2000, the Company has also discontinued its hedging program related to the Singapore Dollar. During the third quarter of 2002, the Company purchased a manufacturing facility in Thailand and began hedging the Thai Baht.



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As of June 28, 2002, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except average contract rate):

	June 28, 2002		
	Contract Amount	Weighted Average Contract Rate	Unrealized Gain (Loss)
	(U.S. Dollar equivalent amounts)		
<b>Foreign currency forward contracts:</b>			
British Pound Sterling	2.0	1.52	—
Thai Baht	3.0	41.25	—

In 2002, 2001 and 2000, total realized transaction and forward exchange contract currency gains and losses were not material to the consolidated financial statements and the carrying value of the contracts approximated fair value. 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*

At June 28, 2002, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately \$83.0 million, compared to the related book value of \$86.2 million. The convertible debentures will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008, or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. The payment on those dates, with the exception of a Fundamental Change, can be in cash, stock or any combination, at the Company's option.

#### *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 debt which does not have a fixed-rate of interest. At June 28, 2002, there were no borrowings outstanding under the Facility.

#### *Fair Value Risk*

The Company owns approximately 1.0 million shares of Vixel common stock. As of June 28, 2002, the market value of the Vixel shares was \$2.6 million. Changes in the market value of the Vixel shares are recorded as unrealized gains or losses in other comprehensive income (shareholders' equity). As of June 28, 2002, a \$2.6 million total accumulated unrealized gain has been recorded in accumulated other comprehensive income. If the Company sells any portion of this common stock, the related unrealized gain or loss on the date of sale will become realized and reflected as a gain or loss in the Company's income statement. As a result of market conditions, the market value of the shares had declined from \$2.6 million as of June 28, 2002 to \$1.5 million as of September 20, 2002. Due to market fluctuations, an additional decline in the stock's fair market value could occur.

**Item 8. Financial Statements and Supplementary Data**

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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 28, 2002 and June 29, 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 28, 2002, 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.

KPMG LLP

Orange County, California

July 25, 2002

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

	Years ended		
	June 28, 2002	June 29, 2001	June 30, 2000
Revenues, net	\$2,151,152	\$1,953,392	\$1,957,199
Costs and expenses:			
Cost of revenues	1,869,551	1,745,654	1,947,594
Research and development	120,128	113,382	150,658
Selling, general and administrative	110,797	115,832	126,986
Restructuring charges	—	—	85,837
Total costs and expenses	2,100,476	1,974,868	2,311,075
Operating income (loss)	50,676	(21,476)	(353,876)
Net interest and other income (expense)	1,419	(53,115)	4,874
Income (loss) from continuing operations before income taxes, extraordinary gain (loss), and cumulative effect of change in accounting principle	52,095	(74,591)	(349,002)
Income tax benefit	1,140	—	19,500
Income (loss) from continuing operations before extraordinary gain (loss) and cumulative effect of change in accounting principle	53,235	(74,591)	(329,502)
Discontinued operations			
Loss from discontinued operations	(12,291)	(45,168)	(25,413)
Gain on disposal of discontinued operations	24,532	—	—
Extraordinary gain (loss) from redemption of debentures	(48)	22,400	166,899
Cumulative effect of change in accounting principle	—	(1,504)	—
Net income (loss)	\$ 65,428	\$ (98,863)	\$ (188,016)
Basic income (loss) per common share:			
Income (loss) from continuing operations before extraordinary gain (loss) and cumulative effect of change in accounting principle	\$ .28	\$ (.44)	\$ (2.69)
Discontinued operations			
Loss from discontinued operations	(.06)	(.27)	(.20)
Gain on disposal of discontinued operations	.13	—	—
Extraordinary gain (loss)	(.00)	.13	1.36
Cumulative effect of change in accounting principle	—	(.01)	—
	\$ .35	\$ (.59)	\$ (1.53)
Diluted income (loss) per common share:			
Income (loss) from continuing operations before extraordinary gain (loss) and cumulative effect of change in accounting principle	\$ .28	\$ (.44)	\$ (2.69)
Discontinued operations			
Loss from discontinued operations	(.07)	(.27)	(.20)
Gain on disposal of discontinued operations	.13	—	—
Extraordinary gain (loss)	(.00)	.13	1.36
Cumulative effect of change in accounting principle	—	(.01)	—
	\$ .34	\$ (.59)	\$ (1.53)
Common shares used in computing per share amounts:			
Basic	188,988	168,715	122,624
Diluted	193,708	168,715	122,624

See notes to consolidated financial statements.



## WESTERN DIGITAL CORPORATION

CONSOLIDATED BALANCE SHEETS  
(in thousands)

	June 28, 2002	June 29, 2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 223,728	\$ 167,582
Accounts receivable, less allowance for doubtful accounts of \$7,573 in 2002 and \$13,298 in 2001	218,832	127,767
Inventories	73,395	78,905
Prepaid expenses and other assets	11,554	11,455
Total current assets	527,509	385,709
Property and equipment at cost, net	107,520	106,166
Other assets, net	1,651	15,777
Total assets	\$ 636,680	\$ 507,652
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 302,998	\$ 224,544
Accrued compensation	17,586	11,778
Accrued warranty	26,913	30,943
Other accrued expenses	58,975	73,081
Convertible debentures	86,204	—
Total current liabilities	492,676	340,346
Other liabilities	41,142	38,629
Convertible debentures	—	112,491
Minority interest	—	9,383
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, \$.01 par value; Authorized — 5,000 shares; Outstanding — None	—	—
Common stock, \$.01 par value; Authorized — 450,000 shares; Outstanding — 195,438 shares in 2002 and 192,800 in 2001	1,954	1,928
Additional paid-in capital	714,137	735,439
Accumulated deficit	(516,292)	(581,720)
Accumulated other comprehensive income	2,559	3,112
Deferred compensation	(3,192)	(3,745)
Treasury stock — common shares at cost; 3,295 shares in 2002 and 6,420 shares in 2001	(96,304)	(148,211)
Total shareholders' equity	102,862	6,803
Total liabilities and shareholders' equity	\$ 636,680	\$ 507,652

See notes to consolidated financial statements.

**WESTERN DIGITAL CORPORATION**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)**  
**(in thousands)**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Comprehensive Income (Loss)	Deferred Compensation	Total Shareholders' Equity (Deficiency)	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount						
<b>Balance at July 3, 1999</b>	101,908	\$1,019	(11,297)	\$(193,042)	\$335,197	\$(294,841)	\$ (2,123)	\$ —	\$(153,790)	
ESPP shares issued	—	—	1,236	10,660	(5,622)	—	—	—	5,038	
Exercise of stock options	—	—	288	2,572	(1,427)	—	—	—	1,145	
Shares issued in debenture redemptions	26,725	268	—	—	109,841	—	—	—	110,108	
Shares issued in equity facility sales	24,611	246	—	—	111,556	—	—	—	111,803	
Other shares issued	91	1	—	—	387	—	—	—	388	
Net loss	—	—	—	—	—	(188,016)	—	—	(188,016)	\$(188,016)
Unrealized gain on investment securities	—	—	—	—	—	—	3,490	—	3,490	3,490
<b>Balance at June 30, 2000</b>	153,335	1,534	(9,773)	(179,810)	549,932	(482,857)	1,367	—	(109,834)	\$(184,526)
ESPP shares issued	—	—	1,199	11,232	(6,780)	—	—	—	4,452	
Exercise of stock options	—	—	854	8,546	(5,885)	—	—	—	2,661	
Shares issued in debenture redemption	15,970	159	—	—	95,315	—	—	—	95,474	
Shares issued in equity facility sales	23,495	235	—	—	110,239	—	—	—	110,474	
Issuance of restricted stock awards	—	—	1,300	11,821	(7,382)	—	—	(4,439)	—	
Amortization of deferred compensation	—	—	—	—	—	—	—	694	694	
Net loss	—	—	—	—	—	(98,863)	—	—	(98,863)	\$(98,863)
Unrealized gain on investment securities	—	—	—	—	—	—	1,745	—	1,745	1,745
<b>Balance at June 29, 2001</b>	192,800	1,928	(6,420)	(148,211)	735,439	(581,720)	3,112	(3,745)	6,803	\$(97,118)
ESPP shares issued	—	—	1,343	13,893	(9,550)	—	—	—	4,343	
Exercise of stock options and warrants	—	—	1,557	34,357	(28,541)	—	—	—	5,816	
Shares issued in debenture redemption	2,638	26	—	—	13,559	—	—	—	13,585	
Issuance of restricted stock awards, net of forfeiture	—	—	225	3,657	(2,582)	—	—	(1,075)	—	
Amortization of deferred compensation	—	—	—	—	—	—	—	1,628	1,628	
Net effect of subsidiary equity transactions	—	—	—	—	5,812	—	—	—	5,812	
Net income	—	—	—	—	—	65,428	—	—	65,428	\$65,428
Unrealized loss on investment securities	—	—	—	—	—	—	(553)	—	(553)	(553)
<b>Balance at June 28, 2002</b>	195,438	\$1,954	(3,295)	\$(96,304)	\$714,137	\$(516,292)	\$2,559	\$(3,192)	\$102,862	\$64,875

See notes to consolidated financial statements.

## WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Years ended		
	June 28, 2002	June 29, 2001	June 30, 2000
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 65,428	\$ (98,863)	\$(188,016)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities of continuing operations:			
Gain on sale of discontinued operations	(24,532)	—	—
Loss from discontinued operations	12,291	45,168	25,413
Extraordinary (gain) loss on debenture redemptions	48	(22,400)	(166,899)
Depreciation and amortization	45,794	51,905	78,283
Non-cash interest expense	5,649	7,483	15,447
Non-cash portion of restructuring charges	—	—	56,301
Investment gains, net	(4,391)	—	(14,767)
Non-cash adjustment to Komag investment and note	—	39,283	—
Other non-cash charges, net	2,000	—	—
Changes in assets and liabilities:			
Accounts receivable	(90,529)	31,149	124,649
Inventories	5,427	1,804	46,639
Prepaid expenses and other assets	938	(134)	5,376
Accrued warranty	(5,058)	(18,095)	(3,099)
Accounts payable, accrued compensation and accrued expenses	71,023	(90,463)	(104,911)
Other	(1,337)	(5,685)	(1,137)
Net cash provided by (used for) continuing operations	82,751	(58,848)	(126,721)
<b>Cash flows from investing activities</b>			
Capital expenditures, net	(47,743)	(50,683)	(21,442)
Proceeds from sales of property and equipment	—	—	66,756
Other investment activity	9,912	14,979	(12,867)
Net cash provided by (used for) investing activities of continuing operations	(37,831)	(35,704)	32,447
<b>Cash flows from financing activities</b>			
Proceeds from ESPP shares issued and stock option exercises	10,159	7,113	6,183
Repayment of bank debt	—	—	(50,000)
Cash used in debenture redemptions	(17,613)	—	—
Common stock issued for cash	—	110,474	111,803
Proceeds from minority investment in subsidiary	450	—	10,000
Net cash provided by (used for) financing activities of continuing operations	(7,004)	117,587	77,986
Cash provided by (used for) discontinued operations	18,230	(39,474)	(25,838)
Net increase (decrease) in cash and cash equivalents	56,146	(16,439)	(42,126)
Cash and cash equivalents at beginning of year	167,582	184,021	226,147
Cash and cash equivalents at end of year	\$223,728	\$167,582	\$ 184,021

See notes to 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. In order to align its manufacturing and financial calendars, effective during the three months ended December 31, 1999, the Company changed its fiscal calendar so that each fiscal month ends on the Friday nearest to the last day of the calendar month. Prior to this change, the Company’s fiscal month ended on the Saturday nearest to the last day of the calendar month. The change did not have a material impact on the Company’s results of operations or financial position. The 2002, 2001 and 2000 fiscal years ended on June 28, June 29, and June 30 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. 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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

*Intangible Assets*

Intangible assets are included in other assets and amortized over their expected useful lives or the lives of the related products. The Company reviews identifiable intangibles and other long-lived assets for impairment whenever events or circumstances indicate the carrying amounts may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized to the extent that the carrying value of the asset exceeds its fair value.

*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 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 revenues for 2001 of \$13.1 million, of which \$16.9 million had previously been recorded in 2000. The cumulative effect on prior years' net loss of this accounting change was \$1.5 million.

In accordance with standard industry practice, the Company's agreements with certain resellers provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving items. 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 \$990, \$1,016 and \$881 million for 2002, 2001 and 2000, respectively. Repurchases of reseller inventory were not material in 2002, 2001 and 2000.

*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 1 to 3 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. 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 \$6.0, \$7.4 and \$9.0 million in 2002, 2001 and 2000, 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")

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 11).

*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, restricted stock awards and common shares issuable upon conversion of the convertible debentures.

As of June 28, 2002, June 29, 2001 and June 30, 2000, 24.7 million, 23.3 million and 20.9 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 same periods, an additional 2.9 million, 4.0 million and 8.4 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 (see Note 6).

*Fair Value of Financial Instruments*

The carrying amount of cash and cash equivalents approximates fair value for all periods presented because of the short-term maturity of these financial instruments. The fair value of the Company’s convertible debentures is estimated by reference to quoted information from market sources. At June 28, 2002, the market value of the Company’s convertible debentures was approximately \$83.0 million, compared to the related carrying value of \$86.2 million. At June 29, 2001, the market value of the Company’s convertible debentures was approximately \$85.1 million, compared to the related carrying value of \$112.5 million. The carrying amounts of all other financial instruments in the consolidated balance sheets approximate fair values.

*Investments*

The Company’s investments in unrestricted, marketable equity securities have been classified as “available for sale”, are included in other current assets, and are carried at fair value. The classification of a security is determined at the acquisition date and reviewed periodically. The Company regularly reviews the fair market value of the available for sale securities and records an unrealized gain or loss for any changes in the fair market value. Unrealized gains or losses are shown as a component of accumulated comprehensive income (loss) in shareholders’ equity. Securities that are not classified as “available for sale” are carried at the lower of cost or estimated fair value. The Company periodically reviews its investments for instances where fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value. The amount of

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

any write-down would be included in the results of operations as a realized loss. Realized gains and losses resulting from the sale of securities are determined using the specific identification method.

*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 SFAS 115.

*Subsidiary Equity Transactions*

During the periods presented, the Company's new venture subsidiary, SageTree, Inc. ("SageTree"), received cash proceeds from unrelated parties in exchange for an equity interest in SageTree. As a result of the sale of stock to an unrelated party during 2002, the Company's ownership percentage of SageTree decreased to less than 50% and the Company discontinued accounting for SageTree under the consolidation method. At the time the stock was sold to the unrelated party, the price was in excess of SageTree's book value and, therefore, the Company's net investment in SageTree increased. As SageTree was a newly formed development stage company, the increase was reflected in shareholders' equity as a "subsidiary equity transaction", in accordance with SEC Staff Accounting Bulletin 84.

*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 denominated in foreign currencies. The purpose for entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the results of operations. As a result, a majority of the increases or decreases in the Company's local currency operating expenses are offset by gains and losses on the hedges. The contracts have maturity dates that do not exceed 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". 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 British Pound Sterling and the Thai Baht with values of \$5.0 and \$2.8 million, at June 28, 2002 and June 29, 2001, respectively. The Company has elected not to designate these forward exchange contracts as accounting hedges and any changes in fair value were recorded through the results of operations for the years ended June 28, 2002 and June 29, 2001.

*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.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Reclassifications*

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

*New Accounting Pronouncements*

During April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt", which required all gains and losses from extinguishment of debt to be classified as an extraordinary item. The Company will adopt SFAS 145 on June 29, 2002 at which time it will begin classifying gains and losses resulting from the extinguishment of debt as other income and expense, instead of extraordinary items. The adoption will not have a net impact on the Company's results of operations or liquidity.

On September 11, 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-15, "Determining Whether Certain Conversions of Convertible Debt to Equity Securities are within the Scope of FASB Statement No. 84, Induced Conversions of Convertible Debt" ("FAS 84"). The EITF deliberated this issue because of diversity in practice in the accounting for conversions of convertible debt to equity initiated by the debt holder. In practice, some registrants accounted for these transactions following FAS 84 while others followed Accounting Principles Board Opinion No. 26, "Early Extinguishment of Debt" ("APB 26"). The EITF concluded that FAS 84 applies to conversions of convertible debt when the offer for consideration in excess of the original conversion terms was made by the bondholder. The EITF concluded that this guidance should be followed for transactions entered into on or after September 12, 2002. The Company's previous extinguishments of its convertible debentures involving the issuance of stock have been accounted for under APB 26 whereby a gain on early extinguishment was recorded equal to the excess of the net book value of the indebtedness over the fair value of the consideration paid to extinguish the indebtedness. Following the guidance in EITF Issue No. 02-15, similar early extinguishments of the convertible debentures involving stock initiated by the debt holder will give rise to a conversion inducement expense equal to the fair value of the shares issued in excess of those required to be issued upon the exercise of the debenture conversion feature. The Company does not expect EITF Issue No. 02-15 to have a significant impact on the future results of operations because the Company does not expect to use stock to make early extinguishments of its convertible debentures.

**WESTERN DIGITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 2. Supplemental Financial Statement Data (in thousands)**

	2002	2001	2000
<b>Net Interest and Other Income (Expense)</b>			
Interest income	\$ 4,035	\$ 7,154	\$ 9,260
Interest expense	(8,127)	(8,743)	(19,153)
Net realized investment gains (losses)	(4,216)	(337)	14,767
Minority interest in losses of consolidated subsidiary	727	1,215	—
Other gains (charges)(1)	9,000	(52,404)	—
<b>Net interest and other income (expense)</b>	<b>\$ 1,419</b>	<b>\$ (53,115)</b>	<b>\$ 4,874</b>
<b>Cash paid for interest</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,100</b>
<b>Inventories</b>			
Finished goods	\$ 54,483	\$ 48,123	
Work in process	9,523	8,888	
Raw materials and component parts	9,389	21,894	
	<b>\$ 73,395</b>	<b>\$ 78,905</b>	
<b>Property and Equipment</b>			
Land and buildings	\$ 59,097	\$ 54,060	
Machinery and equipment	290,477	305,966	
Furniture and fixtures	6,674	7,219	
Leasehold improvements	11,195	10,818	
	367,443	378,063	
Accumulated depreciation and amortization	(259,923)	(271,897)	
<b>Net property and equipment</b>	<b>\$ 107,520</b>	<b>\$ 106,166</b>	
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Common stock issued for redemption of convertible debentures	\$ 13,585	\$ 95,474	\$110,108
Redemption of convertible debentures for Company common stock, net of capitalized issuance costs	\$ 13,358	\$ 117,874	\$277,008
Settlement of accounts payable by transfer of cost method investments			\$ 26,242
Transfer of Service Center assets in exchange for promissory note			\$ 11,655

- (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.

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 3. Convertible Debentures and Line of Credit***Convertible Debentures*

The Company has zero coupon convertible subordinated debentures due February 18, 2018 (the “Debentures”). The Debentures are subordinated to all senior debt; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and at the holder’s option, will be redeemed by the Company, as of February 18, 2003, February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption. The payment on those dates, with the exception of a Fundamental Change, can be in cash, stock or any combination, at the Company’s option. Alternatively, a holder may choose to convert debentures into shares of the Company’s common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity. Based on current forecasts, the Company now intends to satisfy the majority, if not all, of its put obligations in cash instead of common stock. Accordingly, the Debentures have been classified as a current liability at June 28, 2002. Debentures not put to the Company in February 2003, if any, will be reclassified as long-term debt.

During 2002, the Company issued 2.6 million shares of common stock and paid \$17.6 million in cash 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. During 2000, the Company issued 26.7 million shares of common stock in exchange for Debentures with a book value of \$284.1 million and an aggregate principal amount at maturity of \$735.6 million. These redemptions were private, individually negotiated transactions with certain institutional investors and resulted in an extraordinary loss of \$0.1 million during 2002 and extraordinary gains of \$22.4 and \$166.9 million during 2001 and 2000, respectively (see also New Accounting Pronouncements under Note 1).

As of June 28, 2002, the book value of the remaining outstanding Debentures was \$86.2 million and the aggregate principal amount at maturity was \$193.5 million. Debenture issuance costs are included in other assets and amortized over the term of the Debentures. During 2002, 2001 and 2000, approximately \$0.4, \$2.4 and \$7.1 million, respectively, of unamortized issuance costs were netted against the extraordinary gain in connection with the redemptions. As of June 28, 2002 the balance of unamortized Debenture issuance costs was \$0.6 million.

*Line of Credit*

The Company has a three-year Senior Credit Facility that provides up to \$125 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation), matures on September 20, 2003 and is 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 determined by the borrowing base. The Senior Credit Facility requires the Company to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. The Senior Credit Facility replaced a previous facility that matured on March 31, 2000. As of the date hereof, there were no borrowings under the facility. However, the Company has issued a \$25 million standby letter of credit under the facility to Cirrus Logic, Inc. (“Cirrus”) concerning \$25 million in disputed accounts payable. These disputed accounts payable have been recorded in the Company’s financial statements, but are part of the Company’s litigation against Cirrus (see Note 5). The availability under the Senior Credit Facility has been reduced by a corresponding amount for the outstanding letter of credit.

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 4. Operating Lease Commitments**

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2010. Rental expense under these leases, including month-to-month rentals, was \$11.7, \$15.4 and \$17.8 million in 2002, 2001 and 2000, respectively.

Future minimum rental payments under non-cancelable operating leases as of June 28, 2002 are as follows (in thousands):

2003	\$10,131
2004	8,213
2005	7,061
2006	7,004
2007	5,508
Thereafter	19,559
Total future minimum rental payments	\$57,476

**Note 5. Legal Proceedings**

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

In the normal course of business, the Company is subject to legal proceedings, lawsuits and other claims, including proceedings under laws and government regulations related to environmental, labor, product and other matters. The ultimate aggregate amount of monetary liability or financial impact with respect to these matters at June 28, 2002, is subject to many uncertainties and is therefore not predictable with assurance. While these matters could affect the operating results of any one quarter when resolved in future periods, management believes that, after final disposition, any monetary liability or financial impact to the Company from these matters, beyond that provided at June 28, 2002, would not be material to the annual consolidated financial statements. However, there can be no assurance with respect to such result. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Although patent holders often offer such licenses, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to the Company.

In 1992, Amstrad plc ("Amstrad") brought suit against the Company in California State Superior Court, County of Orange, alleging that disk drives supplied to Amstrad by the Company in 1988 and 1989 were defective and caused damages to Amstrad of not less than \$186 million. The suit also sought punitive damages. The Company denied the material allegations of the complaint and filed cross-claims against Amstrad. The case was tried, and in June 1999 the jury returned a verdict in favor of Western Digital. Amstrad appealed the judgment and the judgment awarding costs and attorney's fees to the Company. The Company and Amstrad have entered into a settlement agreement settling all claims between them relating to the litigation, and dismissals of the appeals will be entered shortly.

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



## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. The Company intends to vigorously defend the suit.

On July 5, 2001, the Company (and its Malaysian subsidiary) filed suit against Cirrus Logic, Inc. ("Cirrus") in California Superior Court for the County of Orange for breach of contract and other claims resulting from Cirrus' role as a strategic supplier of read channel chips for the Company's hard drives. The Company also stopped making payments to Cirrus for past deliveries of chips and terminated all outstanding purchase orders from Cirrus for such chips. The Company's complaint alleges that Cirrus' unlawful conduct caused damages in excess of any amounts that may 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. Cirrus denied the allegations contained in the Company's complaint and asserted counterclaims against the Company for, among other things, the amount of the outstanding invoices and the Company's 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 October 9, 2001, the Court granted Cirrus' Motion for Judgment on the Pleadings, with leave to amend, and on November 8, 2001, the Company filed its First Amended Complaint. Cirrus demurred to the First Amended Complaint, and on December 18, 2001, the Court denied Cirrus' demurrer. On November 2, 2001, Cirrus filed Applications for Right to Attach Orders and for Writs of Attachment against the Company and its Malaysian subsidiary in the amount of \$25.2 million as security for the approximately \$27 million allegedly owed for read-channel chips purchased from Cirrus that is disputed by the Company. On December 20, 2001, the Court granted Cirrus' Applications but required Cirrus to post undertakings in the amount of approximately \$0.5 million on each Writ before issuance. Pursuant to agreement with Cirrus, the Company posted a letter of credit in the amount of \$25.2 million in satisfaction of the Writs. Discovery in the case is currently underway, and the Company expects that it will continue for the next several months.

**Note 6. Shareholders' Equity***Equity Facility*

Under shelf registrations (the "equity facility") previously in effect with the Securities and Exchange Commission, 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. During 2001, the Company issued 23.5 million shares of common stock under the equity facility for net cash proceeds of approximately \$110.5 million. During 2000, the Company issued 24.6 million shares of common stock under the equity facility for net cash proceeds of approximately \$111.8 million.

*Stock Reserved for Issuance*

The following table summarizes all shares of common stock reserved for issuance at June 28, 2002 (in thousands):

	<u>Number of Shares</u>
Issuable in connection with:	
Convertible debentures	2,890
Exercise of stock options, including options available for grant	42,340
Employee stock purchase plan	1,592
	<u>46,822</u>

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*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 1.6 million shares of common stock remain reserved for issuance under this plan. Approximately 1,343,000, 1,199,000 and 1,236,000 shares were issued under this plan during 2002, 2001 and 2000, 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 28, 2002, options to purchase 8,547,233 shares of common stock were exercisable and 10,553,315 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 28, 2002, options to purchase 6,213,949 shares of common stock were exercisable and 1,695,716 shares were available for grant as options or stock awards, under this plan.

Under the Broad-Based Plan, the Company issued to certain employees 0.3 million 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 (deficiency), and are being amortized over the three-year vesting period.

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 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 28, 2002, options to purchase 630,941 shares of common stock were exercisable and 1,038,876 shares were available for grant under this plan.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Number of Shares	Weighted Average Exercise Price Per Share
<b>Options outstanding at July 3, 1999</b>	17,726	\$13.19
Granted	13,485	3.82
Exercised	(288)	4.10
Canceled or expired	(10,022)	9.92
<b>Options outstanding at June 30, 2000</b>	20,901	8.83
Granted	7,843	5.45
Exercised	(854)	3.14
Canceled or expired	(4,539)	10.02
<b>Options outstanding at June 29, 2001</b>	23,351	7.69
Granted	8,271	3.13
Exercised	(1,296)	3.50
Canceled or expired	(1,274)	8.46
<b>Options outstanding at June 28, 2002</b>	29,052	6.54

The significant number of shares canceled or expired in 2000 was the result of terminations relating to restructuring and other attrition.

The following tables summarize information about options outstanding and exercisable under the Employee, Broad-Based and Director Plans at June 28, 2002 (in thousands, 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
\$ 1.94 – 2.10	4,863	9.21	\$ 2.10	311	\$ 2.09
2.21 – 3.27	2,679	7.53	2.86	1,871	2.81
3.31 – 3.47	1,466	3.53	3.38	742	3.31
3.63 – 4.43	3,699	7.15	4.27	2,341	4.31
4.44 – 5.12	2,462	7.86	4.72	1,206	4.70
5.13 – 6.00	5,219	8.35	5.93	2,032	5.94
6.05 – 8.81	3,789	5.92	7.25	2,571	7.56
8.87 – 12.87	3,046	5.39	11.91	2,560	11.94
13.50 – 48.50	1,829	5.03	24.66	1,758	25.10
Total	29,052	7.15	6.54	15,392	8.47

*Pro Forma Information*

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

**WESTERN DIGITAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The fair value of options granted in 2002, 2001 and 2000 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 Plan		
	2002	2001	2000	2002	2001	2000
Option life (in years)	3.0	2.5	4.0	2.0	2.0	2.0
Risk-free interest rate	3.37%	4.20%	6.15%	2.90%	4.20%	6.15%
Stock price volatility	0.88	1.05	0.83	0.88	1.05	0.83
Dividend yield	—	—	—	—	—	—

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

	2002	2001	2000
Options granted under the Stock Option Plans	\$1.94	\$3.86	\$2.44
Shares granted under the ESPP Plan	\$2.90	\$4.65	\$8.77

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

	Year Ended		
	June 28, 2002	June 29, 2001	June 30, 2000
<b>Net income (loss)</b>			
As reported	\$ 65,428	\$ (98,863)	\$(188,016)
SFAS 123 pro forma adjustment	(23,091)	(29,779)	(39,783)
Pro forma net income (loss)	<u>\$ 42,337</u>	<u>\$(128,642)</u>	<u>\$(227,799)</u>
<b>Income (loss) per share:</b>			
Basic as reported	\$ 0.35	\$ (0.59)	\$ (1.53)
SFAS 123 pro forma adjustment	(0.13)	(0.17)	(0.33)
Pro forma basic income (loss) per share	<u>\$ 0.22</u>	<u>\$ (0.76)</u>	<u>\$ (1.86)</u>
Diluted as reported	\$ 0.34	\$ (0.59)	\$ (1.53)
SFAS 123 pro forma adjustment	(0.12)	(0.17)	(0.33)
Pro forma diluted income (loss) per share	<u>\$ 0.22</u>	<u>\$ (0.76)</u>	<u>\$ (1.86)</u>

*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

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 2002, 2001 and 2000 the Company made contributions to the 401(k) plan of \$1.4 million, \$1.7 million and \$2.3 million, respectively.

**Note 8. Restructurings**

During 2000, the Company initiated restructuring actions to improve operational efficiency and reduce operating expenses. Charges related to these restructuring actions were accrued in the periods in which executive management committed to execute such actions. The restructuring actions taken in 2000 included the reorganization of worldwide operational and management responsibilities, transfer of hard drive production from Singapore to the Company's manufacturing facility in Malaysia, removal of property and equipment from service, closure of the Company's Singapore operations and closure of its Rochester, Minnesota design center. These actions resulted in a net reduction of worldwide headcount of approximately 2,000, of which approximately 540 were management, professional and administrative personnel and the remainder were manufacturing employees. These employees were given legally required notification and outplacement services. Restructuring charges recorded in connection with these actions totaled \$85.8 million and consisted of severance and outplacement costs of \$28.7 million, the write-off of manufacturing equipment and information systems assets of \$56.3 million (taken out of service and held for disposal), and net lease cancellation and other costs associated with the closure of \$11.0 million. Reducing these charges was the favorable settlement of lease commitments in Singapore of \$5.3 million, favorable settlement of 1999 restructuring accruals of \$1.8 million and a gain realized on the sale of the Tuas, Singapore facility, closed during 1999 restructuring actions, of \$3.1 million. The restructuring effort was substantially completed by June 30, 2000. Of the charges related to the 2000 restructuring actions, approximately \$30.5 million was paid in 2000 and the remainder was paid in 2001. Also paid in 2000 was the remainder of the 1999 restructuring of \$0.2 million.

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the restructuring charges, the amounts paid and the ending accrual balances (in thousands) for the years ended June 30, 2000 and June 29, 2001:

	Accruals	Non-Cash Charges	Total Charges
<b>Balance at July 3, 1999 (from 1999 restructuring actions)</b>	\$ 1,946		
Consolidation of Asian operations and closure of Rochester design center:			
Fixed asset write-offs	\$ —	\$56,301	\$56,301
Severance and outplacement	28,679	—	28,679
Lease cancellation and other (net of favorable lease settlement of \$5,252)	5,733	—	5,733
	34,412	56,301	90,713
Changes to 1999 restructuring estimates:			
Gain on sale of Tuas building	—	—	(3,100)
Favorable settlement of 1999 restructuring accruals	(1,776)	—	(1,776)
		\$56,301	\$85,837
Cash payments during 2000	(30,699)		
<b>Balance at June 30, 2000</b>	<b>\$ 3,883</b>		
Cash payments during 2001	(3,883)		
<b>Balance at June 29, 2001</b>	<b>\$ —</b>		

**Note 9. Business Segment, International Operations and Major Customers***Segment Information*

As of June 28, 2002, the Company operated in one segment, the hard drive business. The Company's new business ventures have been discontinued (see Note 10).

*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. During 1999 and the first half of 2000, the Company also had manufacturing facilities in Singapore. The following table summarizes operations by geographic areas for the past three years. United States revenues to unaffiliated customers include export sales to international customers of \$659.6, \$512.6 and \$505.8 million in 2002, 2001 and 2000, respectively.

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of \$47, \$50 and \$62 million in 2002, 2001 and 2000,

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

respectively, have been excluded in determining operating income (loss) by geographic region. Asia revenues and assets for the periods presented below consist primarily of the Company's Malaysian operations.

	United States	Europe	Asia	Eliminations	Total
(in millions)					
<b>Year ended June 28, 2002</b>					
Sales to unaffiliated customers	\$1,703	\$447	\$ 1	\$ —	\$2,151
Transfers between geographic areas	433	0	1,891	(2,324)	—
Revenues, net	\$2,136	\$447	\$1,892	\$(2,324)	\$2,151
Operating income (loss)	\$ (21)	\$ 1	\$ 108	\$ 10	\$ 98
Long-lived assets	\$ 19	\$ —	\$ 90	\$ —	\$ 109
<b>Year ended June 29, 2001</b>					
Sales to unaffiliated customers	\$1,554	\$397	\$ 2	\$ —	\$1,953
Transfers between geographic areas	385	5	1,769	(2,159)	—
Revenues, net	\$1,939	\$402	\$1,771	\$(2,159)	\$1,953
Operating income (loss)	\$ (84)	\$ 2	\$ 111	\$ 0	\$ 29
Long-lived assets	\$ 45	\$ —	\$ 78	\$ (1)	\$ 122
<b>Year ended June 30, 2000</b>					
Sales to unaffiliated customers	\$1,462	\$485	\$ 10	\$ —	\$1,957
Transfers between geographic areas	479	3	1,858	(2,340)	—
Revenues, net	\$1,941	\$488	\$1,868	\$(2,340)	\$1,957
Operating income (loss)	\$ (296)	\$ 4	\$ (58)	\$ 58	\$ (292)
Long-lived assets	\$ 100	\$ 1	\$ 65	\$ (2)	\$ 164

*Major Customers*

During 2002, sales to Dell Computer accounted for 15% of the Company's revenues 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 revenues. During 2001, sales to Dell Computer accounted for 16% of the Company's revenues and sales to Compaq Computer accounted for 12% of the Company's revenues. During 2000 sales to Compaq Computer accounted for 21% of the Company's revenues.

**Note 10. 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

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. At June 28, 2002, there were no remaining assets or liabilities attributable to any of the new ventures. At June 29, 2001, the net liabilities of discontinued operations, totaling \$2.1 million, were included with other accrued expenses on the balance sheet and consisted principally of individually immaterial amounts of inventories, prepaid expenses, fixed assets, accounts payable and accrued expenses.

**Note 11. Income Taxes**

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

	2002	2001	2000
United States	\$ (56,530)	\$(214,817)	\$(214,316)
International	120,818	115,954	6,800
Income (loss) before income taxes	\$ 64,288	\$ (98,863)	\$(207,516)

The components of income tax benefit are as follows (in thousands):

	2002	2001	2000
Current			
United States	\$(3,124)	\$(1,800)	\$(15,302)
International	1,667	1,620	2,623
State	317	180	179
	(1,140)	—	(12,500)
Deferred, net	—	—	(7,000)
Income tax benefit	\$(1,140)	\$ —	\$(19,500)

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 2002, 2001 and 2000 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 \$20.0 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. During 2000, the Company reversed \$19.5 million of tax accruals and certain deferred tax amounts. These accruals were previously established over time and primarily related to unremitted income of foreign subsidiaries. However, based upon a review of the Company's tax positions after the substantial international operations restructurings in 2000, and due to the significant balances of net operating losses in recent years, the Company believed these accruals were no longer necessary.

Income tax payments amounted to \$2.0 million, \$1.5 million and \$4.6 million in 2002, 2001 and 2000, respectively.



## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Temporary differences and carryforwards, which give rise to a significant portion of deferred tax assets and liabilities at June 28, 2002 and June 29, 2001 are as follows (in thousands):

	2002	2001
Deferred tax assets:		
NOL carryforward	\$ 234,046	\$ 375,150
Business credit carryforward	44,183	42,680
Reserves and accrued expenses not currently deductible	82,952	101,189
All other	7,972	7,909
	369,153	526,928
Valuation allowance	(369,153)	(526,928)
Total deferred tax assets	\$ —	\$ —
Deferred tax liabilities:		
Unremitted income of foreign subsidiaries	\$ 9,016	\$ 8,429
All other	—	1,333
Total deferred tax liabilities	\$ 9,016	\$ 9,762

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

	2002	2001
Sales related reserves and adjustments	\$42,560	\$ 46,263
Accrued compensation and benefits	5,695	5,841
Inventory reserves and adjustments	1,993	3,552
Other accrued liabilities	32,704	45,533
Total deferred tax assets	\$82,952	\$101,189

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 28, 2002, on which no U.S. tax has been provided, amounted to approximately \$110 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.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2002	2001	2000
U.S. Federal statutory rate	35.0%	(35.0)%	(35.0)%
Current year U.S. loss not benefitted	0.0	76.1	19.3
State income taxes, net	0.5	0.2	0.0
Tax rate differential on international income	(63.1)	(42.7)	0.1
Tax effect of repatriation	272.2	0.0	16.9
Utilization of NOL carryforward	(218.2)	0.0	0.0
Benefit from change in beginning valuation allowance	(28.0)	0.0	0.0
Tax accrual adjustment	0.0	0.0	(9.4)
Other	(0.2)	1.4	(1.2)
Effective tax rate	(1.8)%	0.0%	(9.3)%

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 \$29 million (\$.15 per diluted share), \$30 million (\$.18 per diluted share), and \$19 million (\$.15 per diluted share) in 2002, 2001 and 2000, respectively. These lower rates are in effect through fiscal year 2004.

At June 28, 2002, the Company had Federal and state net operating loss carryforwards of approximately \$595 million and \$432 million, respectively. In addition, the Company had various Federal and state tax credit carryforwards of approximately \$44.2 million. The loss carryforwards are available to offset future federal and state taxable income through 2021 and 2006, respectively. The credit carryforwards begin to expire in 2003.

**Note 12. Quarterly Results of Operations (unaudited)**

	First(1)(4)	Second(2)(4)	Third(4)	Fourth(3)(4)
(in thousands, except per share amounts)				
<b>2002</b>				
Revenues, net	\$440,943	\$574,670	\$594,867	\$540,672
Gross profit	56,007	70,558	81,018	74,018
Operating income (loss)	(206)	12,852	20,801	17,229
Income (loss) from continuing operations	(557)	15,546	22,077	16,169
Gain (loss) from discontinued operations	21,075	(2,851)	(2,893)	(3,090)
Net income	20,518	12,594	19,198	13,118
Basic and diluted earnings per share	\$ 0.11	\$ 0.07	\$ 0.10	\$ 0.07
<b>2001</b>				
Revenues, net	\$424,366	\$561,570	\$511,723	\$455,733
Gross profit	25,936	67,541	63,295	50,966
Operating income (loss)	(33,376)	5,163	4,431	2,306
Income (loss) from continuing operations	(35,008)	6,002	4,469	(50,054)
Loss from discontinued operations	(10,257)	(12,991)	(10,588)	(11,332)
Net income (loss)	(35,526)	3,587	(5,748)	(61,176)
Basic and diluted earnings (loss) per share	\$ (0.24)	\$ 0.02	\$ (0.03)	\$ (0.34)

(1) During the first quarter of 2002, the Company sold substantially all the assets of Connex and SANavigator for cash proceeds of \$11.0 million and \$29.8 million respectively. The Company recognized

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

The first quarter of 2001 includes an extraordinary gain of \$11.2 million the Company recognized for the redemption of debentures.

- (2) The second quarter of 2002 includes a \$9.0 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 \$5.5 million non-cash loss on the write-down of certain cost-method investments that were determined to be impaired.

The second quarter of 2001 includes an extraordinary gain of \$10.6 million the Company recognized for the redemption of debentures.

- (3) During the fourth quarter of 2001, the Company recorded nonoperating charges of \$52.4 million to adjust the carrying value of equity investments in and notes receivable from Komag and accruals of Komag contingent guarantees.
- (4) The quarterly results presented have been reclassified to present the operations of Connex, SANavigator, and Keen PM as discontinued.

## WESTERN DIGITAL CORPORATION

## SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

Three years ended June 28, 2002  
(in thousands)

	Allowance for Doubtful Accounts	Accrued Warranty(1)
	_____	_____
<b>Balance at July 3, 1999.</b>	\$18,537	\$ 78,187
Charges to operations	945	77,719
Deductions	(6,221)	(85,341)
	_____	_____
<b>Balance at June 30, 2000</b>	13,261	70,565
Charges to operations	1,218	39,736
Deductions	(1,181)	(57,831)
	_____	_____
<b>Balance at June 29, 2001</b>	13,298	52,470
Charges to operations	3,441	46,527
Deductions	(9,166)	(51,585)
	_____	_____
<b>Balance at June 28, 2002</b>	\$ 7,573	\$ 47,412
	_____	_____

(1) Accrued warranty includes amounts classified in non-current liabilities of \$20.5 million at June 28, 2002, \$21.5 million at June 29, 2001 and \$30.2 million at June 30, 2000.

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

None.

**PART III**

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

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 2002 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 28, 2002.

**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 2002 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 28, 2002.

**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 2002 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 28, 2002.

**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 2002 Annual Meeting of Shareholders under the caption "Related Party Transactions," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 28, 2002.

**Item 14. *Controls and Procedures***

Not applicable.

**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.

## Table of Contents

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

<b>Exhibit Number</b>	<b>Description</b>
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.(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(21)
3.2	Amended and Restated By-laws of Western Digital Corporation, adopted as of March 28, 2002(26)
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)(21)
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(21)
4.4	Indenture, dated as of February 18, 1998, between Western Digital Corporation and State Street Bank and Trust Company of California, N.A., as Trustee(9)
4.4.1	First Supplemental Indenture, dated as of April 6, 2001, between Western Digital Corporation and State Street Bank and Trust Company, N.A.(21)
4.7	Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(9)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(12)*
10.1.5	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001(23)*
10.2	Amended and Restated 401(k) Plan, adopted as of March 28, 2002(26)
10.3	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 18, 1999(18)*
10.3.1	First Amendment to the Western Digital Corporation 1993 Employee Stock Purchase Plan, dated April 6, 2001(23)*
10.10	Amended and Restated Deferred Compensation Plan, adopted May 31, 2002*†
10.11	Amended and Restated Executive Bonus Plan, adopted May 31, 2002*†
10.12	Western Digital Corporation Extended Severance Plan, effective January 18, 1990(2)*
10.12.1	Amendment No. 1 to the Western Digital Corporation Extended Severance Plan, effective September 1, 1995(5)*
10.12.2	Western Digital Corporation Change of Control Severance Plan, effective March 29, 2001(22)*

## Table of Contents

<b>Exhibit Number</b>	<b>Description</b>
10.16.1	Amended and Restated Western Digital Corporation Long-Term Retention Plan, as amended and restated on July 10, 1997(8)*
10.16.2	Western Digital Corporation Executive Retention Plan(11)*
10.21	Amended and Restated Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, effective as of January 27, 2000(23)*
10.21.1	First Amendment to the Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, dated April 6, 2001(23)*
10.23	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(19)
10.30	Western Digital Corporation Savings and Profit Sharing Plan(3)*
10.31	First Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated June 30, 1995(3)*
10.32	Second Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated March 27, 1996(4)*
10.32.1	Third Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 1997(6)*
10.32.2	Fourth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective June 23, 1995(7)*
10.32.3	Fifth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, dated November 13, 1997(10)*
10.32.4	Sixth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 2000(16)*
10.32.5	Seventh Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 2000(16)*
10.32.6	Eighth Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated April 6, 2001(23)*
10.33	Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, effective as of May 25, 2000(23)*
10.33.1	First Amendment to the Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001(23)*
10.34	Western Digital Corporation Broad-Based Stock Incentive Plan(16)*
10.34.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001(23)*
10.35.1	Western Digital Corporation Incentive Compensation Plan(24)*
10.36	Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc. (f/k/a Western Digital Corporation), dated February 7, 2001§†
10.36.1	Amendment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc. (f/k/a Western Digital Corporation), dated as of December 18, 2001§†
10.36.2	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†

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<b>Exhibit Number</b>	<b>Description</b>
10.36.3	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§†
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(10)(13)
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(10)(13)
10.42	Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(14)(17)
10.43	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(14)(17)
10.43.1	Amendment No. 1 to Volume Purchase Agreement by and between Western Digital Corporation and Komag, Inc., effective October 5, 2001(24)
10.45	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, effective December 1, 1999(15)*
10.45.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001(23)*
10.46	Amended and Restated Purchase Agreement, dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation(16)
10.47	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.(20)
10.47.1	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(23)
10.47.2	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(23)
10.47.3	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(23)
10.47.4	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(24)
10.47.5	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(25)§
10.47.6	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(26)
10.47.7	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†
10.48	Continuing Guaranty, between Western Digital Corporation and General Electric Capital Corporation, dated as of April 7, 2001(23)



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<b>Exhibit Number</b>	<b>Description</b>
10.54	Letter agreement, dated October 19, 2001, by and between Western Digital Corporation and D. Scott Mercer(25)
10.55	Letter agreement, dated March 31, 2002, by and between Western Digital Corporation and Michael A. Cornelius†
21	Subsidiaries of Western Digital Corporation†
23	Consent of Independent Auditors†
99.1	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†
99.2	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†
99.3	Statement Under Oath of Principal Executive Officer Regarding Facts and Circumstances Relating to Exchange Act Filings†
99.4	Statement Under Oath of Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings†

† 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 Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 23, 1994.
- (3) 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 29, 1995.
- (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 September 18, 1996.
- (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 November 12, 1996.
- (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 February 10, 1997.
- (7) 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, 1997.
- (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 12, 1997.
- (9) Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-52463), as filed with the Securities and Exchange Commission on May 12, 1998.
- (10) 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 1, 1998.
- (11) 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.
- (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 February 8, 1999.
- (13) Subject to confidentiality order dated October 2, 1998.

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- (14) 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.
- (15) 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.
- (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 May 15, 2000.
- (17) Subject to confidentiality order dated June 27, 2000.
- (18) Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Registration No. 333-95499), as filed with the Securities and Exchange Commission on January 27, 2000.
- (19) 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.
- (20) 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.
- (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 April 6, 2001.
- (22) 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 14, 2001.
- (23) 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.
- (24) 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.
- (25) 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.
- (26) 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.

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

None.

**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/ D. SCOTT MERCER

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D. Scott Mercer  
*Senior Vice President and Chief Financial Officer*

Dated: September 25, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on September 25, 2002.

<u>Signature</u>	<u>Title</u>
<hr/> <u>/s/ MATTHEW E. MASSENGILL</u> Matthew E. Massengill	Chairman and Chief Executive Officer (Principal Executive Officer)
<hr/> <u>/s/ D. SCOTT MERCER</u> D. Scott Mercer	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
<hr/> <u>/s/ JOSEPH R. CARRILLO</u> Joseph R. Carrillo	Vice President and Corporate Controller (Principal Accounting Officer)
<hr/> <u>/s/ PETER D. BEHRENDT</u> Peter D. Behrendt	Director
<hr/> <u>/s/ I. M. BOOTH</u> I. M. Booth	Director
<hr/> <u>/s/ KATHLEEN A. COTE</u> Kathleen A. Cote	Director
<hr/> <u>/s/ HENRY T. DENERO</u> Henry T. DeNero	Director
<hr/> <u>Michael D. Lambert</u>	Director
<hr/> <u>/s/ ROGER H. MOORE</u> Roger H. Moore	Director
<hr/> <u>/s/ THOMAS E. PARDUN</u> Thomas E. Pardun	Director

**CERTIFICATION**

Each of the undersigned, in his capacity as the Chief Executive Officer and Chief Financial Officer of Western Digital Corporation provides the following certifications required by 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and 17 C.F.R. §240.13a-14.

**Certification of Chief Executive Officer**

I, Matthew E. Massengill, certify that:

- I have reviewed this Annual Report on Form 10-K of Western Digital Corporation;
- Based on my knowledge, this Annual 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 Annual Report; and
- Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report.

Dated: September 25, 2002

/s/ MATTHEW E. MASSENGILL

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Matthew E. Massengill  
*Chief Executive Officer*

**Certification of Chief Financial Officer**

I, D. Scott Mercer, certify that:

- I have reviewed this Annual Report on Form 10-K of Western Digital Corporation;
- Based on my knowledge, this Annual 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 Annual Report; and
- Based on my knowledge, the financial statements, and other financial information included in this Annual 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 Annual Report.

Dated: September 25, 2002

/s/ D. SCOTT MERCER

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D. Scott Mercer  
*Chief Financial Officer*

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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.(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(21)
3.2	Amended and Restated By-laws of Western Digital Corporation, adopted as of March 28, 2002(26)
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)(21)
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(21)
4.4	Indenture, dated as of February 18, 1998, between Western Digital Corporation and State Street Bank and Trust Company of California, N.A., as Trustee(9)
4.4.1	First Supplemental Indenture, dated as of April 6, 2001, between Western Digital Corporation and State Street Bank and Trust Company, N.A.(21)
4.7	Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical Western Digital Corporation's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(9)
10.1.4	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 5, 1998(12)*
10.1.5	First Amendment to the Western Digital Corporation Employee Stock Option Plan, dated April 6, 2001(23)*
10.2	Amended and Restated 401(k) Plan, adopted as of March 28, 2002(26)
10.3	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 18, 1999(18)*
10.3.1	First Amendment to the Western Digital Corporation 1993 Employee Stock Purchase Plan, dated April 6, 2001(23)*
10.10	Amended and Restated Deferred Compensation Plan, adopted May 31, 2002*†
10.11	Amended and Restated Executive Bonus Plan, adopted May 31, 2002*†
10.12	Western Digital Corporation Extended Severance Plan, effective January 18, 1990(2)*
10.12.1	Amendment No. 1 to the Western Digital Corporation Extended Severance Plan, effective September 1, 1995(5)*
10.12.2	Western Digital Corporation Change of Control Severance Plan, effective March 29, 2001(22)*
10.16.1	Amended and Restated Western Digital Corporation Long-Term Retention Plan, as amended and restated on July 10, 1997(8)*
10.16.2	Western Digital Corporation Executive Retention Plan(11)*
10.21	Amended and Restated Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, effective as of January 27, 2000(23)*
10.21.1	First Amendment to the Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, dated April 6, 2001(23)*

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<b>Exhibit Number</b>	<b>Description</b>
10.23	Lease by and between Serrano Jack, L.L.C., and Western Digital Corporation, dated May 30, 2000(19)
10.30	Western Digital Corporation Savings and Profit Sharing Plan(3)*
10.31	First Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated June 30, 1995(3)*
10.32	Second Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated March 27, 1996(4)*
10.32.1	Third Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 1997(6)*
10.32.2	Fourth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective June 23, 1995(7)*
10.32.3	Fifth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, dated November 13, 1997(10)*
10.32.4	Sixth Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 2000(16)*
10.32.5	Seventh Amendment to the Western Digital Corporation Retirement Savings and Profit Sharing Plan, effective January 1, 2000(16)*
10.32.6	Eighth Amendment to the Western Digital Corporation Savings and Profit Sharing Plan, dated April 6, 2001(23)*
10.33	Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, effective as of May 25, 2000(23)*
10.33.1	First Amendment to the Western Digital Corporation Amended and Restated Stock Option Plan for Non-Employee Directors, dated April 6, 2001(23)*
10.34	Western Digital Corporation Broad-Based Stock Incentive Plan(16)*
10.34.1	First Amendment to the Western Digital Corporation Broad-Based Stock Incentive Plan, dated April 6, 2001(23)*
10.35.1	Western Digital Corporation Incentive Compensation Plan(24)*
10.36	Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc. (f/k/a Western Digital Corporation), dated February 7, 2001§†
10.36.1	Amendment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products between International Business Machines Corporation and Western Digital Technologies, Inc. (f/k/a Western Digital Corporation), dated as of December 18, 2001§†
10.36.2	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†
10.36.3	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§†
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(10)(13)
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation(10)(13)
10.42	Asset Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(14)(17)
10.43	Volume Purchase Agreement, dated April 8, 1999, by and between Western Digital Corporation and Komag, Inc.(14)(17)

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<b>Exhibit Number</b>	<b>Description</b>
10.43.1	Amendment No. 1 to Volume Purchase Agreement by and between Western Digital Corporation and Komag, Inc., effective October 5, 2001(24)
10.45	Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, effective December 1, 1999(15)*
10.45.1	First Amendment to the Western Digital Corporation 1999 Employee Severance Plan for U.S. Employees, dated April 6, 2001(23)*
10.46	Amended and Restated Purchase Agreement, dated February 23, 2000, by and between Western Digital Corporation and Mayo Foundation(16)
10.47	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.(20)
10.47.1	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(23)
10.47.2	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(23)
10.47.3	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(23)
10.47.4	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(24)
10.47.5	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(25)§
10.47.6	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(26)
10.47.7	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†
10.48	Continuing Guaranty, between Western Digital Corporation and General Electric Capital Corporation, dated as of April 7, 2001(23)
10.54	Letter agreement, dated October 19, 2001, by and between Western Digital Corporation and D. Scott Mercer(25)
10.55	Letter agreement, dated March 31, 2002, by and between Western Digital Corporation and Michael A. Cornelius†
21	Subsidiaries of Western Digital Corporation†
23	Consent of Independent Auditors†
99.1	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†
99.2	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†
99.3	Statement Under Oath of Principal Executive Officer Regarding Facts and Circumstances Relating to Exchange Act Filings†

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<b>Exhibit Number</b>	<b>Description</b>
99.4	Statement Under Oath of Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings†
†	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 Annual Report on Form 10-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 23, 1994.
(3)	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 29, 1995.
(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 September 18, 1996.
(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 November 12, 1996.
(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 February 10, 1997.
(7)	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, 1997.
(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 12, 1997.
(9)	Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-52463), as filed with the Securities and Exchange Commission on May 12, 1998.
(10)	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 1, 1998.
(11)	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.
(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 February 8, 1999.
(13)	Subject to confidentiality order dated October 2, 1998.
(14)	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.
(15)	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.
(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 May 15, 2000.
(17)	Subject to confidentiality order dated June 27, 2000.
(18)	Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (Registration No. 333-95499), as filed with the Securities and Exchange Commission on January 27, 2000.
(19)	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.
(20)	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.



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- (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 April 6, 2001.
- (22) 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 14, 2001.
- (23) 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.
- (24) 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.
- (25) 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.
- (26) 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.

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document  
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AMENDED AND RESTATED

EFFECTIVE AUGUST 1, 2001

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WESTERN DIGITAL CORPORATION

DEFERRED COMPENSATION PLAN

Amended and Restated

Effective August 1, 2001

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Western Digital Corporation a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA. The Plan was originally adopted effective May 16, 1994, previously amended and restated effective January 9, 1997, then again effective January 1, 1998, and is hereby amended and restated in its entirety effective August, 2001.

ARTICLE 1  
DEFINITIONS

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance and (ii) the Company Contribution Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under the Management Incentive Compensation Plan, Profit Sharing Plan (Cash Element) or Long-Term Incentive Plan.
- 1.3 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.4 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary, Annual Bonus and Directors Fees that a Participant elects to have, and is deferred, in

accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

- 1.5 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: The vested Account Balance of the Participant shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year Annual Installment Method, the first payment shall be 1/10 of the vested Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the vested Account Balance, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.
- 1.6 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.7 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.8 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.9 "Board" shall mean the board of directors of the Company.

1.10 "Change in Control" shall mean the first to occur of any of the following events:

- (a) Any person (other than an Exempt Person), alone or together with its Affiliates and Associates, including any group of Persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act, becomes the Beneficial Owner, directly or indirectly, of thirty-three and one-third percent or more of (i) the then-outstanding shares of the Company's common stock or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then outstanding voting securities;
- (b) A change, during any period of two consecutive years, of a majority of the Board of the Company as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the effective date of this Plan and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the incumbent Directors then in office);
- (c) Consummation of any merger, consolidation, reorganization or other extraordinary transactions (or series of related transactions) involving the Company which results in the stockholders of the Company having power to vote in the ordinary election of directors immediately prior to such transaction (or series of related transactions) failing to beneficially own at least a majority of the securities of the Company having the power to vote in the ordinary election of directors which are outstanding after giving effect to such transaction (or series of related transactions); or
- (d) The stockholders of the Company approve a plan of complete liquidation of the Company or the sale of substantially all of the assets of the Company; or
- (e) Substantially all of the assets of the Company are sold or otherwise transferred to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which the Company is a member.

1.11 "Claimant" shall have the meaning set forth in Section 14.1.

1.12 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.13 "Committee" shall mean the committee described in Article 12.



- 1.14 "Company" shall mean Western Digital Corporation a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.
- 1.15 "Company Common Stock" shall mean authorized and unissued shares or treasury shares of the Company's common stock.
- 1.16 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.
- 1.17 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.8 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.
- 1.18 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.19 "Director" shall mean any member of the board of directors of any Employer.

- 1.20 "Directors Fees" shall mean the annual fees paid by any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors and, after January 8, 1997, shall include Directors Fees (Stock Element).
- 1.21 "Directors Fees (Stock Element)" shall mean that portion of Directors Fees paid in the form of shares of Company Common Stock and granted to Non-Employee Directors on a mandatory or elective basis under the terms of the Stock Plan after January 8, 1997.
- 1.22 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.
- 1.23 "Disability Benefit" shall mean the benefit set forth in Article 8.
- 1.24 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.25 "Employee" shall mean a person who is an employee of any Employer.
- 1.26 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.
- 1.27 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.28 "First Plan Year" shall mean the period beginning May 16, 1994 and ending December 31, 1994.
- 1.29 "Long-Term Incentive Plan" shall mean the Western Digital Corporation Long-Term Incentive Plan.
- 1.30 "Management Incentive Plan" shall mean the Western Digital Corporation Management Incentive Plan.
- 1.31 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an

Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

- 1.32 "Plan" shall mean the Western Digital Corporation Deferred Compensation Plan, originally adopted effective May 16, 1994, amended and restated in its entirety January 9, 1997, and further amended and restated in its entirety effective January 1, 1998, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.
- 1.33 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.
- 1.34 "Plan Year" shall, except for the First Plan Year, mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.35 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.
- 1.36 "Profit Sharing Plan (Cash Element)" shall mean the portion of the Western Digital Corporation Profit Sharing Plan which, in accordance with its terms, pays benefits in cash.
- 1.37 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the attainment of age fifty-five (55); and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the later of (a) the attainment of age seventy (70), or (b) in the sole discretion of the Committee, an age later than age seventy (70). If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least three years prior to Retirement and in

accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee. In this regard, a Participant shall be deemed to cease being employed by an Employer if and when the Employer employing such Participant ceases to be a majority owned subsidiary of the Company and the Board provides that such event shall be treated as a cessation of employment by all Employers.

- 1.38 "Retirement Benefit" shall mean the benefit set forth in Article 5.
- 1.39 "Short-Term Payout" shall mean the payout set forth in Section 4.1.
- 1.40 "Stock Plan" shall mean the Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, as amended and restated effective January 9, 1997.
- 1.41 "Termination Benefit" shall mean the benefit set forth in Article 7.
- 1.42 "Termination of Employment" shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held; provided, however, that such a Participant may elect, at least three years before Termination of Employment and in accordance with the policies and procedures established by the Committee, to be treated for purposes of this Plan as having experienced a Termination of Employment at the time he or she ceases employment with an Employer as an Employee. In this regard, a Participant shall be deemed to cease being employed by an Employer if and when the Employer employing such Participant ceases to be a majority owned subsidiary of the Company and the Board provides that such event shall be treated as a cessation of employment by all Employers.
- 1.43 "Trust" shall mean one or more trusts established pursuant to that certain Master Trust Agreement, dated as of May 16, 1994 between the Company and the trustee named therein, as amended from time to time.
- 1.44 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

ARTICLE 2  
SELECTION, ENROLLMENT, ELIGIBILITY

- 2.1 SELECTION BY COMMITTEE. Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.
- 2.2 ENROLLMENT REQUIREMENTS. As a condition to participation, for the First Plan Year, each selected Employee or Director shall complete, execute and return to the Committee any time prior to May 16, 1994, a Plan Agreement, an Election Form and a Beneficiary Designation Form. Individuals initially selected to participate after May 16, 1994 may commence participation by completing, executing and returning to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days of selection. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.
- 2.3 ELIGIBILITY; COMMENCEMENT OF PARTICIPATION. Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on May 16, 1994, or, in the case of those selected for participation after that date, the May 1, or January 1 immediately following the date in which the Employee or Director completes all enrollment requirements, provided that a Director who is elected or appointed other than at an annual stockholders meeting may commence participation on the date he or she joins the Board, subject to new elections for each succeeding Plan Year pursuant to Section 3.3. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.
- 2.4 TERMINATION OF PARTICIPATION AND/OR DEFERRALS. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then vested Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3  
DEFERRAL COMMITMENTS/COMPANY CONTRIBUTION/CREDITING/TAXES

3.1 MINIMUM DEFERRALS.

- (a) BASE ANNUAL SALARY, ANNUAL BONUS AND DIRECTOR'S FEES. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Annual Bonus and/or Director's Fees in the following minimum amounts for each deferral elected:

DEFERRAL -----	MINIMUM AMOUNT -----
Base Annual Salary	\$2,000
Annual Bonus	\$2,000
Directors Fees	\$ 0

If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero.

- (b) SHORT PLAN YEAR. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the First Plan Year of the Plan, the minimum Base Annual Salary deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

3.2 MAXIMUM DEFERRAL.

- (a) BASE ANNUAL SALARY, ANNUAL BONUS AND DIRECTORS FEES. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Annual Bonus and/or Directors Fees up to the following maximum percentages for each deferral elected:

DEFERRAL -----	MAXIMUM AMOUNT -----
Base Annual Salary	100%
Annual Bonus	100%
Directors Fees	100%

- (b) Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the First Plan Year, the maximum Annual Deferral Amount, with respect to Base Annual Salary, Annual Bonus and Directors Fees shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

3.3 ELECTION TO DEFER; EFFECT OF ELECTION FORM.

- (a) FIRST PLAN YEAR. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.
- (b) SUBSEQUENT PLAN YEARS. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form; provided that any deferral election in respect of Directors Fees for the 1997 Plan Year may be made on or before January 31, 1997. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 WITHHOLDING OF ANNUAL DEFERRAL AMOUNTS. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus and/or Directors Fees portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus or Directors Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 ANNUAL COMPANY CONTRIBUTION AMOUNT. For each Plan Year, the Board, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Annual Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. The Annual Company Contribution Amount, if any, shall be credited as of the last day of the Plan Year. If a Participant is not employed by an Employer as of the last day of a Plan Year other than by reason of his or her Retirement or death while employed, the Annual Company Contribution Amount for that Plan Year shall be zero. Notwithstanding the foregoing, the Company shall credit to the Account Balances of Participants who are non-employee Directors an Annual Company Contribution Amount each Plan Year

representing the 15 percent premium awarded under Section 7(b) of the Stock Plan (the "Premium Award"), which amount shall be credited at such times as the Company shall determine.

3.6 INVESTMENT OF TRUST ASSETS. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement, including the disposition of stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.7 VESTING.

- (a) A Participant shall at all times be 100% vested in his or her Deferral Account.
- (b) Except as otherwise provided in this Section 3.7, a Participant shall be vested in his or her Company Contribution Account in accordance with the provisions governing employer contributions under the Company's qualified 401(k) plan.
- (c) A Participant shall at all times be 100% vested in the portion of his or her Deferral Account attributable to the Premium Award(s).
- (d) Notwithstanding anything to the contrary contained in this Section 3.7, in the event of his or her Retirement, Disability or a Change in Control, a Participant's Company Contribution Account shall immediately become 100% vested (if it is not already vested in accordance with this Section 3.7).

3.8 CREDITING/DEBITING OF ACCOUNT BALANCES. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) ELECTION OF MEASUREMENT FUNDS. Except as otherwise provided in Section 3.8 (d) or Section 3.8(e) below, a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.8(c) below) to be used to determine the additional amounts to be credited to his or her Account Balance for the first day thereof in which the Participant commences participation in the Plan and continuing thereafter for each subsequent day in which



the Participant participates in the Plan, unless changed in accordance with the next sentence. Except as otherwise provided in Section 3.8(d) or Section 3.8(e) below, commencing with the first day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, no later than the prior business day, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund; provided, however, that a Participant may make no more than two (2) such elections each Plan Year. If an election is made in accordance with the previous sentence, it shall apply to the next day and continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

- (b) PROPORTIONATE ALLOCATION. In making any election described in Section 3.8(a) above, the Participant shall specify on the Election Form, in increments of five percentage points (5%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance and Annual Deferral Amount).
- (c) MEASUREMENT FUNDS. Except as otherwise provided in Section 3.8(d) or Section 3.8(e) below, the Participant may elect one or more of the following measurement funds, based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting additional amounts to his or her Account Balance:
  - (1) Fidelity VIP Money Market Portfolio (described as a mutual fund seeking a high level of current income as is consistent with preserving capital and providing liquidity);
  - (2) Fidelity VIP II Index 500 Portfolio (described as a mutual fund which seeks to achieve investment results corresponding to the total return of common stocks publicly traded in the United States);
  - (3) Neuberger & Berman Management Inc. AMT Partners Portfolio (described as a mutual fund which seeks long-term growth of capital primarily through investments in common stocks);
  - (4) Fred Alger Management Inc. Small Capitalization Portfolio (described as a mutual fund which seeks long-term growth of capital primarily through investments in small capitalization common stocks); and

- (5) Declared Rate Fund (described as a fund which is credited with interest at a fixed rate declared as an annual rate for each Plan Year by the Company prior to the beginning of the Plan Year).

As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the calendar quarter that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

- (d) MINIMUM PERCENTAGE FOR DECLARED RATE MEASUREMENT FUND. Notwithstanding any provision of this Plan, other than Section 3.8(e) below, that may be construed to the contrary, effective January 1, 1998, a Participant's Account Balance as of such date shall be allocated to the Declared Rate Measurement Fund. Except as otherwise provided in Section 3.8(e) below, effective January 2, 1998, at all times during a Plan Year, a Participant must allocate a minimum percentage of his or her existing Account Balance and Annual Deferral Amount to the Declared Rate Measurement Fund (the "Minimum Percentage"). The Minimum Percentage for a Plan Year (i) must be fifty percent (50%) for the 1998 Plan Year, (ii) must be determined by the Committee, in its sole discretion, and announced prior to the beginning of any other Plan Year, (iii) may be higher or lower than the Minimum Percentage for any other Plan Year and (iv) may be zero for any other Plan Year.
- (e) COMPANY STOCK MEASUREMENT FUND FOR DIRECTORS' FEES (STOCK ELEMENT). Notwithstanding any provision of this Plan that may be construed to the contrary, the portion of a Participant's Deferral Account balance attributable to his or her deferral of Directors' Fees (Stock Element) and the portion of a Participant's Company Contribution Account balance attributable to the Premium Award(s), as that term is defined in Section 3.5 above, must be (i) deemed invested at all times prior to distribution in the Company Stock Measurement Fund and (ii) distributed, in the form of Company Common Stock, as a lump sum at the time distribution to the Participant or his or her Beneficiary(ies) is to commence. For purposes of this Section 3.8(e), the Company Stock Measurement Fund is described as a fund which shall be credited or debited with investment results corresponding to the total return of Company Common Stock.
- (f) CREDITING OR DEBITING METHOD. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar date, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any calendar date were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar date, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account

Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such calendar date, no earlier than three business days prior to the distribution, at the closing price on such date.

- (g) NO ACTUAL INVESTMENT. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

### 3.9 FICA AND OTHER TAXES.

- (a) ANNUAL DEFERRAL AMOUNTS. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.9.
- (b) ANNUAL COMPANY CONTRIBUTION AMOUNTS. When a participant becomes vested in a portion of his or her Company Contribution Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Contribution Account in order to comply with this Section 3.9.

- 3.10 DISTRIBUTIONS. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

ARTICLE 4

SHORT-TERM PAYOUT; UNFORESEEABLE FINANCIAL EMERGENCIES; WITHDRAWAL ELECTION

- 4.1 SHORT-TERM PAYOUT. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.9 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid within a 60 days after the first day of any Plan Year designated by the Participant that is at least three Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. Notwithstanding the foregoing, the Participant may irrevocably elect to defer the distribution of a Short-Term Payout to the first 60 days of another Plan Year designated by the Participant that is at least two Plan Years after the Plan Year in which such Short-Term Payout would otherwise be paid, provided such election is made no later than the first day of the Plan Year immediately preceding the Plan Year in which the Short-Term Payout would otherwise be paid.
- 4.2 OTHER BENEFITS TAKE PRECEDENCE OVER SHORT-TERM. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.
- 4.3 WITHDRAWAL PAYOUT/SUSPENSIONS FOR UNFORESEEABLE FINANCIAL EMERGENCIES. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's vested Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.
- 4.4 WITHDRAWAL ELECTION. A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her vested Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a

withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, Disability, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Retirement, Disability or death, a Participant's Withdrawal Amount shall be his or her Account Balance calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within 60 days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan in the future. The payment of this Withdrawal Amount shall not be subject to the Deduction Limitation.

ARTICLE 5  
RETIREMENT BENEFIT

- 5.1 RETIREMENT BENEFIT. Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her vested Account Balance.
- 5.2 PAYMENT OF RETIREMENT BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of 5, 10, 15 or 20 years. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least 3 years prior to the Participant's Retirement and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Participant Retires. Any payment made shall be subject to the Deduction Limitation.
- 5.3 DEATH PRIOR TO COMPLETION OF RETIREMENT BENEFIT. If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary (a) over the remaining number of years and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by

the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's unpaid remaining vested Account Balance.

ARTICLE 6  
PRE-RETIREMENT SURVIVOR BENEFIT

- 6.1 PRE-RETIREMENT SURVIVOR BENEFIT. Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's vested Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.
- 6.2 PAYMENT OF PRE-RETIREMENT SURVIVOR BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form whether the Pre-Retirement Survivor Benefit shall be received by his or her Beneficiary in a lump sum or pursuant to an Annual Installment Method of 5, 10, 15 or 20 years. The Participant may annually change this election to an allowable alternative payout period by submitting a new Election Form to the Committee, which form must be accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee prior to the Participant's death shall govern the payout of the Participant's Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then such benefit shall be paid in a lump sum. Despite the foregoing, if the Participant's vested Account Balance at the time of his or her death is less than \$25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, in a lump sum or pursuant to an Annual Installment Method of not more than 5 years. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7  
TERMINATION BENEFIT

- 7.1 TERMINATION BENEFIT. Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.
- 7.2 PAYMENT OF TERMINATION BENEFIT. The Termination of Employment shall be paid in a lump sum within 60 days of the Termination of Employment.

ARTICLE 8  
DISABILITY WAIVER AND BENEFIT

8.1 DISABILITY WAIVER.

- (a) WAIVER OF DEFERRAL. A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Annual Bonus and/or Directors Fees for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.
- (b) RETURN TO WORK. If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

- 8.2 CONTINUED ELIGIBILITY; DISABILITY BENEFIT. A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, or in the service of an Employer as a Director, and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have experienced a Termination of Employment, or in the case of a Participant who is eligible to Retire, to have Retired, at any time (or in the case of a Participant who is eligible to Retire, as soon as practicable) after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her vested Account Balance at the time of the Committee's determination; provided, however, that should the Participant otherwise have been eligible to Retire, he or she shall be paid in accordance with Article 5. The Disability Benefit shall be paid in a lump sum within 60 days of the Committee's exercise of such right. Any payment made shall be subject to the Deduction Limitation.



ARTICLE 9  
BENEFICIARY DESIGNATION

- 9.1 BENEFICIARY. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 9.2 BENEFICIARY DESIGNATION; CHANGE; SPOUSAL CONSENT. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.
- 9.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.
- 9.4 NO BENEFICIARY DESIGNATION. If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 9.5 DOUBT AS TO BENEFICIARY. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

9.6 DISCHARGE OF OBLIGATIONS. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 10  
LEAVE OF ABSENCE

10.1 PAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

10.2 UNPAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11  
TERMINATION, AMENDMENT OR MODIFICATION

11.1 TERMINATION. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate and their vested Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall

have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum. After a Change in Control, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

- 11.2 AMENDMENT. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's vested Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).
- 11.3 PLAN AGREEMENT. Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.

- 11.4 EFFECT OF PAYMENT. The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 12  
ADMINISTRATION

- 12.1 COMMITTEE DUTIES. This Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.
- 12.2 AGENTS. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.
- 12.3 BINDING EFFECT OF DECISIONS. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 12.4 INDEMNITY OF COMMITTEE. All Employers shall indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.
- 12.5 EMPLOYER INFORMATION. To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 13  
OTHER BENEFITS AND AGREEMENTS

13.1 COORDINATION WITH OTHER BENEFITS. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 14  
CLAIMS PROCEDURES

14.1 PRESENTATION OF CLAIM. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 NOTIFICATION OF DECISION. The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
  - (i) the specific reason(s) for the denial of the claim, or any part of it;
  - (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
  - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and
  - (iv) an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 REVIEW OF A DENIED CLAIM. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

- (a) may review pertinent documents;
- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

14.4 DECISION ON REVIEW. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
- (c) such other matters as the Committee deems relevant.

14.5 LEGAL ACTION. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

#### ARTICLE 15 TRUST

15.1 ESTABLISHMENT OF THE TRUST. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts and Annual Company Contribution Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

- 15.2 INTERRELATIONSHIP OF THE PLAN AND THE TRUST. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- 15.3 DISTRIBUTIONS FROM THE TRUST. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 16  
MISCELLANEOUS

- 16.1 STATUS OF PLAN. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.
- 16.2 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 16.3 EMPLOYER'S LIABILITY. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.
- 16.4 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a

Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

- 16.5 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 16.6 FURNISHING INFORMATION. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 16.7 TERMS. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 16.8 CAPTIONS. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 16.9 GOVERNING LAW. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of California without regard to its conflicts of laws principles.
- 16.10 NOTICE. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Deferred Compensation Plan Committee  
Western Digital Corporation  
8105 Irvine Center Drive  
Irvine, CA 92718



Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 16.11 SUCCESSORS. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.
- 16.12 SPOUSE'S INTEREST. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 16.13 VALIDITY. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.
- 16.14 INCOMPETENT. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 16.15 COURT ORDER. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

16.16 DISTRIBUTION IN THE EVENT OF TAXATION.

- (a) IN GENERAL. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid vested Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.
- (b) TRUST. If the Trust terminates in accordance with Section 3.6(e) of the Trust and benefits are distributed from the Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.17 INSURANCE. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

16.18 LEGAL FEES TO ENFORCE RIGHTS AFTER CHANGE IN CONTROL. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any

other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Plan document as of August 1, 2001.

"Company"

Western Digital Corporation a Delaware corporation

By:

Title:

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-30-

WESTERN DIGITAL CORPORATION  
Executive Bonus Plan  
Amended and Restated Effective January 1, 2000  
Master Plan Document

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WESTERN DIGITAL CORPORATION

EXECUTIVE BONUS PLAN

AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2000

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated employees who may contribute materially to the continued growth, development and future business success of Western Digital Corporation, a Delaware corporation, and its subsidiaries. The Plan is intended to constitute a bonus arrangement and fall outside the scope and jurisdiction of the Employee Retirement Income Security Act of 1974.

ARTICLE 1  
DEFINITIONS

For purposes hereof, unless otherwise clearly apparent from the context, the following phrases or term shall have the following indicated meaning:

- 1.1 "Administrative Account" shall mean an account established in accordance with Section 8.3(a)(ii) below.
- 1.2 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 5 below, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.3 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries and attached hereto as Exhibit A.
- 1.4 "Board" shall mean the Board of Directors of the Company.
- 1.5 "Change of Control" means and shall be deemed to occur if any of the following events occur:
  - (a) Any Person (other than an Exempt Person), alone or together with its Affiliates and Associates, including any group of Persons which is deemed a "person" under Section 13(d) (3) of the Exchange Act, becomes the

Beneficial Owner, directly or indirectly, of thirty-three and one-third percent or more of:

- (i) the then-outstanding shares of the Company's common stock or
  - (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then outstanding voting securities;
- (b) A change, during any period of two consecutive years, of a majority of the Board of the Company as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the effective date of this Plan and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);
- (c) Consummation of any merger, consolidation, reorganization or other extraordinary transactions (or series of related transactions) involving the Company which results in the stockholders of the Company having power to vote in the ordinary election of directors immediately prior to such transaction (or series of related transactions) failing to beneficially own at least a majority of the securities of the Company having the power to vote in the ordinary election of directors which are outstanding after giving effect to such transaction (or series of related transactions);
- (d) The stockholders of the Company approve a plan of complete liquidation of the Company or the sale of substantially all of the assets of the Company;
- (e) Substantially all of the assets of the Company are sold or otherwise transferred to parties that are not within a "controlled group of corporations" (as defined in Section 1563 of the Internal Revenue Code of 1986, as amended) in which the Company is a member;
- (f) The Company or any other Employer voluntarily files a petition for bankruptcy under federal bankruptcy law, or an involuntary bankruptcy



petition is filed against any Employer under federal bankruptcy law, which involuntary petition is not dismissed within 120 days of the filing;

- (g) The Company or any other Employer makes a general assignment for the benefit of creditors; or
- (h) The Company or any other Employer seeks or consents to the appointment of a trustee, receiver, liquidator or similar person.

With respect to Sections 1.5(f), (g) and (h) above, if the event described occurs only with respect to one or more Employers (other than the Company) and not to the Company, such event shall be a "Change in Control" only with respect to the Participants of that Employer or those Employers.

- 1.6 "Change in Control Benefit" shall mean the benefit set forth in Section 4.1 below.
- 1.7 "Claimant" shall have the meaning set forth in Section 11.1 below.
- 1.8 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.
- 1.9 "Committee" shall mean the administrative committee appointed to manage and administer the Plan in accordance with the provisions of Article 10 below.
- 1.10 "Company" shall mean Western Digital Corporation, a Delaware corporation.
- 1.11 "Disability" shall mean a period of disability during which a Participant qualifies for benefits under the Participant's Employer's long-term disability plan (if the Participant participates in such a plan), or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for benefits under the Employer's long-term disability plan had the Participant been a participant in such a plan (determined in the sole discretion of the Committee), or, if there is no such plan, as determined in the sole discretion of the Committee.
- 1.12 "Employer" shall mean the Company and/or any of its subsidiaries that have been selected by the Board to participate in the Plan.
- 1.13 "Employer Benefit" shall mean the benefit set forth in Section 4.2 below.

- 1.14 "Forfeiture" shall mean a forfeiture of a Participant's rights to benefits under this Plan as set forth in Section 3.2 below.
- 1.15 "Insurer" shall mean the insurance company or companies that issue one or more Policies.
- 1.16 "Participant" shall mean any employee of an Employer
- (a) who is selected to participate in the Plan,
  - (b) who elects to participate in the Plan,
  - (c) who signs a Plan Agreement and a Beneficiary Designation Form,
  - (d) whose signed Plan Agreement and Beneficiary Designation Form are accepted by the Committee, and
  - (e) whose Plan Agreement has not terminated.
- 1.17 "Participant's Account" shall mean an account established in accordance with Section 8.3(a)(i) below.
- 1.18 "Plan" shall mean the Western Digital Executive Bonus Plan, which is defined by this instrument and by each Plan Agreement, all as may be amended from time to time.
- 1.19 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant shall provide for the entire benefit to which such Participant is entitled to under the Plan, and the Plan Agreement bearing the latest date of acceptance by the Committee shall govern such entitlement.
- 1.20 "Plan Year" shall, for the first Plan Year, begin on May 16, 1994, and end on December 31, 1994. For each Plan Year thereafter, the Plan Year shall begin on January 1 of each year and continue through December 31 of that year.
- 1.21 "Policy" or "Policies" shall mean the policy or policies issued in the name of the Trustee in accordance with the terms and conditions of this Plan and each respective Plan Agreement.

- 1.22 "Reserve Account" shall mean an account established in accordance with Section 8.3(a)(iii) below.
- 1.23 "Retirement," "Retires" or "Retired" shall mean a Participant ceasing to be employed by all Employers for any reason other than a leave of absence, death, or Disability on or after a Participant attains the age of fifty-five (55). In this regard, a Participant shall be deemed to cease being employed by an Employer if and when the Employer employing such Participant ceases to be a majority owned subsidiary of the Company and the Board provides that such event shall be treated as a cessation of employment by all Employers.
- 1.24 "Termination of Employment" shall mean the ceasing of employment with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability or death. In this regard, a Participant shall be deemed to cease being employed by an Employer if and when the Employer employing such Participant ceases to be a majority owned subsidiary of the Company and the Board provides that such event shall be treated as a cessation of employment by all Employers.
- 1.25 "Trust" shall mean the trust established pursuant to that certain Trust Agreement, dated as of May 16, 1994, between the Company and the Trustee, as may be amended from time to time.
- 1.26 "Trustee" shall mean the trustee named in the Trust and any successor trustee.
- 1.27 "Vesting Date" shall mean the date upon which a Participant becomes 100% vested in his or her Change in Control Benefit in accordance with Section 3.1 below.
- 1.28 "Western DCP" shall mean the Western Digital Corporation Deferred Compensation Plan as in effect from time to time.

ARTICLE 2  
SELECTION, ENROLLMENT AND ELIGIBILITY

- 2.1 Selection by Committee. Participation in the Plan shall be limited to a select group of management and highly compensated employees of the Employers. From that group, the Committee shall select, in its sole discretion, employees to participate in the Plan.

- 2.2 Enrollment Requirements. As a condition to participation, each selected employee shall complete, execute and return to the Committee a Plan Agreement and a Beneficiary Designation Form. In addition, the Committee, in its sole discretion, shall establish from time to time such other enrollment requirements as it determines are necessary.
- 2.3 Eligibility; Commencement of Participation. Provided an employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, that employee shall commence participation in the Plan on the date specified by the Committee. If a selected employee fails to meet all such requirements prior to that date, that employee shall not be eligible to participate in the Plan until the completion of those requirements.

ARTICLE 3  
VESTING; ACCOUNT BALANCE

- 3.1 Vesting in Change in Control Benefit. Subject to Section 3.2 below:
- (a) General Rule. If a Participant has not Retired, died, suffered a Disability, experienced a Termination of Employment, or received a complete withdrawal from the Western DCP that permanently ends his participation in such plan prior to 90 days prior to a Change in Control, the Participant shall become 100% vested in his or her Change in Control Benefit on January 1 of the Plan Year following the Change in Control (the "Vesting Date").
  - (b) Early Vesting. If at any time on or after 90 days prior to a Change in Control and prior to the Vesting Date a Participant Retires, dies, suffers a Disability or experiences an involuntary termination of employment with all Employers, the Participant (or the Participant's Beneficiary in the event of the Participant's death) shall become 100% vested in his or her Change in Control Benefit on the later of
    - (i) the date of the Change in Control or
    - (ii) the date of such Retirement, death, Disability or involuntary termination of employment, and such date (rather than January 1 of the following Plan Year) shall be considered the "Vesting Date" for purposes of this Plan.

- 3.2 Forfeiture. Notwithstanding Section 3.1 above, a Participant shall forfeit rights to benefits under this Plan in accordance with this Section 3.2.
- (a) A Participant shall forfeit any right to benefits under this Plan if he or she:
    - (i) Retires, dies, suffers a Disability, experiences a Termination of Employment or receives a complete withdrawal from the Western DCP that permanently ends his participation in such plan prior to 90 days prior to a Change in Control; or
    - (ii) Voluntarily terminates his or her employment (other than by Retirement or Disability) with all of his Employers or withdraws all of his interest in the Western DCP thereby ending his participation in such plan at any time on or after the date of the Change in Control and prior to January 1 of the Plan Year following a Change in Control.
  - (b) A Participant receiving a Short Payout or other partial distribution from the Western DCP before his Vesting Date described in Section 3.1(a) hereof shall forfeit a portion of his Change in Control Benefit which bears the same proportion to all of such benefit as the partial distribution bears to his total interest in the Western DCP.
- 3.3 Account Balance. Within 60 days of the end of each Plan Year, the Company shall determine the balance of each Participant's account as of the end of that Plan Year.

ARTICLE 4  
BENEFITS

- 4.1 Change in Control Benefit.
- (a) Eligibility. On the Vesting Date, the Participant or the Participant's Beneficiary, as the case may be, shall become entitled to the "Change in Control Benefit" described in Section 4.1(b).
  - (b) Benefit and Payment. The "Change in Control Benefit" shall be a dollar amount that is credited to the Participant's Account as of the Vesting Date. This benefit shall be paid to the Participant, or his or her Beneficiary, within 90 days of the Vesting Date.

4.2 Employer Benefit.

- (a) Eligibility. The Participant's Employer shall be entitled to the Employer Benefit if and to the extent a Participant forfeits his Change in Control Benefit under Section 3.2 hereof.
- (b) Benefit and Payment. The "Employer Benefit" shall be (i) a distribution of the dollar amount that is allocated to and held in the Participant's Account as of the date of the event described in Section 3.2 above after taking into account any distributions made or to be made in accordance with Section 4.1 above, plus any earnings allocated to that account from that date to the date of payment of the Employer Benefit and (ii) a distribution of any amount allocated to the Reserve Account in Accordance with Section 8.3(a)(iii) below. This benefit shall be paid to the Participant's Employer within 180 days of January 1 of the Plan Year following that event.

4.3 Withholding and Payroll Taxes. The Trustee shall withhold from any and all benefit payments made under this Article 4, all federal, state and local income, employment and other taxes required to be withheld in connection with the payment of benefits hereunder, in amounts to be determined in the sole discretion of the Participant's Employer.

ARTICLE 5  
BENEFICIARY

5.1 Beneficiary. Each Participant shall have the right, at any time, to designate his or her Beneficiary (both primary as well as contingent) to receive any benefits payable under the Plan to a Beneficiary upon the death of a Participant.

5.2 Beneficiary Designation; Change; Spousal Consent. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations

previously filed shall be cancelled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee before his or her death.

- 5.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted and acknowledged in writing by the Committee or its designated agent.
- 5.4 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in Sections 5.1, 5.2 and 5.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 5.5 Doubt as to Beneficiary. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, before a Change in Control, to cause the Trustee to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 5.6 Discharge of Obligations. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and the Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 6  
TERMINATION, AMENDMENT OR MODIFICATION OF THE PLAN

- 6.1 Termination, Amendment or Modification Prior to One Year Before Change in Control. Prior to one year before a Change in Control, each Employer reserves the right to terminate, amend or modify the Plan or any related Plan Agreement, in whole or in part, with respect to Participants whose services are retained by the Employer. Notwithstanding the foregoing, no termination, amendment or modification shall be effective to decrease or reduce a Participant's potential benefits under this Plan below the balance in his or her Participant's Account as of the effective date of the termination, amendment or modification.

6.2 Termination, Amendment or Modification Within One Year Before Change of Control or Following Change in Control. Within one year before a Change in Control and thereafter, neither the Company, any subsidiary of the Company nor any corporation, trust or other person that succeeds to all or any substantial portion of the assets of the Company shall have the right to terminate, amend or modify the Plan and/or any Plan Agreement in effect prior to such Change in Control, and all benefits under the Plan and any such Plan Agreement shall thereafter be paid in accordance with the terms of the Plan and such Plan Agreement, as in effect immediately prior to such Change in Control. If the Plan is terminated, amended, or modified within one year before the Change in Control, such termination, amendment or modification shall be considered void as of the date of the termination, amendment or modification. Any provision of this Plan or any Plan Agreement to the contrary shall be construed in accordance with this Section 6.2.

6.3 Termination of Plan Agreement. Absent the earlier termination, modification or amendment of the Plan, or a Participant's Forfeiture of his or her benefits under this Plan, the Plan Agreement of any Participant shall terminate upon the full payment of the applicable benefit provided under Article 4.

ARTICLE 7  
OTHER BENEFITS AND AGREEMENTS

7.1 Coordination with Other Benefits. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 8  
TRUST

8.1 Establishment of the Trust; Premiums. The Employers shall establish the Trust and shall at least annually transfer over to the Trust such assets as the Committee determines, prior to a Change in Control, or the Trustee determines, after a Change in Control, are necessary to provide for the Employers' future liabilities created with respect to the benefits provided under the Plan and the Plan Agreements, including, without limitation, the payment of insurance premiums in amounts sufficient to acquire and maintain all Policies held by the Trustee. At the



direction of the Committee, prior to a Change in Control, or the Trustee, after a Change in Control, the Employers shall pay any and all Policy premiums and other costs directly to the Insurer. In addition, if the Trust incurs any tax liability, the Employers shall contribute to the Trust sufficient funds to allow the Trustee to pay any such tax liability.

8.2 Interrelationship of the Plan and the Trust. The provisions of the Plan and each Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Trustee, Participant and a Participant's Beneficiary as to the assets of the Trust. The Employers shall at all times remain liable to carry out their obligations under the Plan. The Employers and the Trustee shall cooperate with each other as is necessary to minimize the Trust's tax liability.

8.3 Accounts.

- (a) The Trustee shall establish and maintain the following separate accounts:
  - (i) A "Participant's Account" for each Participant to which the Employers' contributions, or a portion thereof, and earnings (or losses) thereon shall be allocated to and held, the assets of which are to be used to pay the Change in Control Benefit or the Employer Benefit in accordance with this Plan and the Trust; and
  - (ii) An "Administrative Account" for the administrative expenses of the Trust to which a portion of the Employers' contributions and earnings thereon may be allocated to and held, the assets of which are to be used to pay the administrative expenses, including without limitation all taxes and legal expenses, of the Trust in accordance with the terms and provisions of this Plan and the Trust.
  - (iii) A "Reserve Account" to which shall be allocated all gains described in this subsection. In the event of the death of a Participant or a former Participant whose life is insured by a Policy, the excess of (a) the life insurance proceeds received from such Policy over (b) the cash value of such Policy as of the date immediately preceding the Participant's death shall constitute a gain allocable to the Reserve Account. Any such gain allocated to the Reserve Account shall be distributed as an Employer Benefit pursuant to Section 4.2(b).

- (b) Prior to a Change in Control, the Committee shall direct the Trustee in writing as to:
  - (i) the allocation of the Employers' contributions to the accounts described in Section 8.3(a) above, and
  - (ii) the amounts of the earnings on the Employer's contributions held in the accounts described in Section 8.3(a) above. After a Change in Control, the Trustee shall make such allocations in accordance with the terms of the Plan and the Trust. Notwithstanding the foregoing, and except for a payment of benefits in accordance with Article 4 or a Forfeiture of benefits, a Participant's Account balance shall not be reduced.
- (c) Each of the accounts described in Section 8.3(a) above shall qualify for and be treated as separate shares under Code Section 663(c).

ARTICLE 9  
INSURANCE POLICIES

- 9.1 Policies. The Committee may direct the Trustee in writing to acquire one or more Policies in the Trustee's name. The Trustee shall be the sole and absolute owner and beneficiary of each Policy, with all rights of an owner and beneficiary, including without limitation, the right to surrender Policies for their cash surrender values and to take one or more loans against one or more Policies. Notwithstanding the foregoing, the Trustee shall exercise its ownership rights in each Policy only in accordance with the terms of this Plan, the respective Plan Agreements and the Trust.
- 9.2 Documents Required by Insurer. The Trustee, the Participant's Employer and the Participant shall sign such documents and provide such information as may be required from time to time by the Insurer.

ARTICLE 10  
ADMINISTRATION

- 10.1 Committee Duties. This Plan shall be administered by a Committee which shall consist of persons approved by the Board. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and

authority to make, mend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan.

- 10.2 Agents. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit and may from time to time consult with counsel who may be counsel to any Employer.
- 10.3 Binding Effect of Decisions. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 10.4 Indemnity of Committee. All Employers shall indemnify and hold harmless the members of the Committee against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee or any of its members.
- 10.5 Employer Information. To enable the Committee to perform its functions, each Employer shall supply full and timely information to the Committee on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee may reasonably require.

ARTICLE 11  
CLAIMS PROCEDURES

- 11.1 Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

- 11.2 Notification of Decision. The Committee shall consider a Claimant's claim within 60 days of receipt of that claim, and shall notify the Claimant in writing:
- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
  - (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
    - (i) the specific reason(s) for the denial of the claim, or any part of it;
    - (ii) the specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
    - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and
    - (iv) an explanation of the claim review procedure set forth in Section 11.3 below.
- 11.3 Review of a Denied Claim. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's only authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):
- (a) may review pertinent documents;
  - (b) may submit written comments or other documents; and/or
  - (c) may request a hearing, which the Committee, in its sole discretion, may grant.
- 11.4 Decision on Review. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within

120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
- (c) such other matters as the Committee deems relevant.

11.5 Legal Action. A Claimant's compliance with the foregoing provisions of this Article 11 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 12  
MISCELLANEOUS

12.1 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of an Employer. Any and all of an Employer's assets shall be, and remain, the general, unpledged and unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

12.2 Employer's Liability. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

12.3 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be unassignable and non-transferable, except that the foregoing shall not apply to any family support obligations set forth in a court order. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor

be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

- 12.4 Not a Contract of Employment. The terms and condition of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, with or without cause, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be employed in the service of any Employer, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 12.5 Furnishing Information. A Participant will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 12.6 Terms. Whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 12.7 Captions. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 12.8 Governing Law. The provisions of this Plan shall be construed and interpreted according to the laws of the State of California.
- 12.9 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.
- 12.10 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Deferred Compensation Plan Committee  
Western Digital Corporation

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 12.11 Successors. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant, the Participant's Beneficiaries, and their permitted successors and assigns.
- 12.12 Spouse's Interest. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 12.13 Incompetent. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetency, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.
- 12.14 Distribution in the Event of Taxation. If, for any reason, all or any portion of a Participant's benefit under this Plan becomes taxable to the Participant prior to the Vesting Date, a Participant may petition the Committee, if prior to a Change in Control, or the Trustee, after a Change in Control, for a distribution of assets sufficient to meet the Participant's tax liability (including additions to tax, penalties and interest). Upon the grant of such a petition, which grant shall not be unreasonably withheld, the Trustee shall distribute to the Participant from the Trust immediately available funds in an amount equal to that Participant's federal, state and local tax liability associated with such taxation, which liability shall be

measured by using that Participant's then current highest federal, state and local marginal tax rate, plus the rates or amounts for the applicable additions to tax, penalties and interest. If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted.



IN WITNESS WHEREOF the Company has signed this Plan document as of  
January 1, 2000.

WESTERN DIGITAL CORPORATION,  
a Delaware corporation

By: -----  
Officer's Name: -----

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

SIGNATURE VERSION

AGREEMENT FOR FABRICATION AND PURCHASE OF SEMICONDUCTOR  
PRODUCTS

between

INTERNATIONAL BUSINESS MACHINES CORPORATION  
and  
WESTERN DIGITAL CORPORATION

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

SIGNATURE VERSION

AGREEMENT FOR FABRICATION AND PURCHASE OF SEMICONDUCTOR  
PRODUCTS

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

SIGNATURE VERSION

AGREEMENT FOR FABRICATION AND PURCHASE OF SEMICONDUCTOR  
PRODUCTS

Agreement Number: 000690  
Customer Number: WD1

This Agreement for Fabrication and Purchase of Semiconductor Products ("Agreement"), Agreement Number 000690, dated February 7, 2001, is made and entered into by and between Western Digital Corporation ("Buyer") and International Business Machines Corporation ("IBM").

Buyer agrees to purchase and IBM agrees to fabricate and sell the Products as specified herein in accordance with the terms and conditions stated in this Agreement including its Attachments.

1.0 DEFINITIONS

- 1.1 Commencement Date: February 7, 2001.
- 1.2 Engineering Change: A mechanical or electrical change to Product which may affect form, fit, function or maintainability.
- 1.3 Plant of Manufacture: The IBM location that manages the consolidation/assembly and shipment of Product to IBM Distribution Points or Buyer.
- 1.4 Product(s): The product(s) to be fabricated, sold and purchased under this Agreement and listed in Attachments.
- 1.5 Purchase Order: An order submitted by Customer for the purchase of Products under this Agreement.
- 1.6 Purchase Order Lead Time: The required minimum amount of time between IBM's receipt of the purchase order issued by Buyer and the requested shipment date that is necessary to accommodate manufacturing cycle time.
- 1.7 Shipment Date: The date for shipment of Product requested by Buyer in a Purchase Order accepted by IBM.
- 1.8 Related Company: A corporation, company or other entity which controls or is controlled by a party hereunder or by another Related Company of such party, where control means ownership or control, direct or indirect, of more than fifty (50) percent of:  
(i) the outstanding voting shares or securities (representing the

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right to vote for the election of directors or managing authority), or (ii) the ownership interests representing the right to make decisions for such a corporation, company or other entity (as the case may be in a partnership, joint venture or unincorporated association having no outstanding shares or securities). However, any such corporation, company or other entity shall be deemed to be a Related Company of such party only so long as such ownership or control exists.

1.9 Unit(s): A single unit of the Product.

2.0 UTILIZATION OF PRODUCTS

IBM will not have any installation, warranty or maintenance responsibilities for Product except as referred to in Section 9.0 entitled "Engineering Changes", and Section 10.0 entitled "Product Warranty" unless otherwise agreed to in writing between the parties.

3.0 CONTRACT PERIOD

The term of this Agreement shall begin on the Commencement Date and expire on February 7, 2003.

4.0 PRODUCT PURCHASE INFORMATION

Product forecasting, pricing, shipping terms and related provisions, if applicable, are set forth in Attachments or the Just In Time (JIT) Program Supplement ("the Supplement").

5.0 PURCHASE ORDERS

5.1 Buyer shall order Product by issuing written Purchase Orders, which are subject to acceptance by IBM. Acknowledgment of acceptance or rejection of Purchase Orders must be made within seven (7) days. If IBM fails to accept or reject a Purchase Order within such period, both Buyer and IBM agree to discuss if any options or provisions are available to resolve the issue. IBM and Buyer authorize Buyer's Related Companies to purchase under this Agreement, provided that such Related Company enters into a "Participation Agreement" in the form attached hereto at Exhibit 1. IBM shall ship Units in accordance with such Purchase Orders. Purchase Orders must be placed in advance, with at least the Purchase Order Lead Time specified in Attachments, to allow IBM to meet Buyer's requested Shipment Date. Buyer may request an improved shipment date, however, such request is subject to acceptance by IBM.

5.2 Except for Product part numbers, part number descriptions, price, and quantities, Purchase Orders and acknowledgments will be used to convey information only and any terms and conditions on those are void and replaced by this Agreement.

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5.3 Purchase Orders shall include the following:

- a) Product being purchased;
- b) quantity requested;
- c) Product price per the applicable Attachment;
- d) destination address and requested Shipment Date(s); and
- e) reference to this Agreement and Agreement Number.

5.4 [\*\*\*]

6.0 SECURITY INTEREST

IBM reserves a purchase money security interest in each Unit purchased under this Agreement in the amount of its Product price and in Buyer's proceeds from Product, including accounts receivable. These interests will be satisfied by payment in full. Buyer agrees to execute UCC-1 financing statements or other appropriate documents to be filed on IBM's behalf with appropriate state or other authorities in order to perfect IBM's security interest.

7.0 INVOICING, PAYMENT TERMS, TAXES

7.1 [\*\*\*]

7.2 Buyer agrees to pay amounts equal to any taxes resulting from this Agreement, or any activities hereunder, exclusive of taxes based on IBM's net income. Buyer shall be responsible for any personal property taxes assessable on Products after delivery to the carrier.

7.3 Buyer hereby certifies that it holds a valid Reseller's exemption certificate for Products purchased for resale in each applicable taxing jurisdiction. Based on this certification, IBM shall, where the law permits, treat Buyer as exempt from applicable state and/or local sales tax for Product purchased hereunder.

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- 7.4 Where required by state or local law, Buyer shall provide IBM with a valid Reseller's Exemption Certificate for each taxing jurisdiction to which IBM will ship Products.
- 7.5 Buyer shall notify IBM promptly in writing of any modification or revocation of its exempt status. Buyer shall reimburse IBM for any and all assessments resulting from a refusal by a taxing jurisdiction to recognize any Buyer exemption certificates, or from Buyer's failure to have a valid certificate. If Buyer purchases Product under this Agreement for internal use, Buyer agrees to notify IBM and pay applicable sales tax.

8.0 TERMINATION

- 8.1 If Buyer shall fail to make payments in a timely fashion in accordance with Section 7.1, IBM may terminate this Agreement upon written notice to Buyer.
- 8.2 Other than in the case of nonpayment, if either party is in default of any material provision of this Agreement and such default is not corrected within thirty (30) days of receipt of written notice, this Agreement may be terminated by the party not in default. If the default is such that it cannot be reasonably cured within thirty (30) days, then the defaulting party must commence cure within thirty (30) days and proceed to cure with due diligence.
- 8.3 If Buyer terminates due to IBM default, all outstanding Purchase Orders shall be fulfilled by IBM unless Buyer notifies IBM in its default notice of its desire to cancel any or all such Purchase Orders, [\*\*\*]
- 8.4 If IBM terminates due to Buyer default, at IBM's discretion, all outstanding Purchase Orders shall be automatically cancelled and cancellation charges will apply in addition to any other amounts then due.
- 8.5 Notwithstanding the provisions of Section 8.2, IBM shall have the right to terminate this Agreement immediately upon the occurrence of any of the following events:
- a) A Change of Control of Buyer shall have occurred; for purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if the stockholders of Buyer shall approve any plan or proposal for the liquidation or dissolution of Buyer.
  - b) (i) Buyer shall (a) voluntarily commence any proceeding or file any petition seeking relief under Title II of the United States Code or any other Federal or state bankruptcy, insolvency, or similar law, (b) consent to the

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institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (c) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, or similar official for Buyer or for a substantial part of its property or assets, (d) file an answer admitting the material allegations of a petition for involuntary bankruptcy filed against it in any such proceeding, (e) make a general assignment for the benefit of creditors, (f) admit in writing its inability to pay its debts as they become due or (g) take corporate action for the purpose of effecting any of the foregoing; or

(ii) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (a) relief in respect of Buyer or of a substantial part of any of its property or assets, under Title 11 of the United States Code or any other Federal or state bankruptcy, insolvency, or similar law, (b) the appointment of a receiver, trustee, custodian, sequestrator, or similar official for Buyer or for a substantial part of its property or (c) the winding-up or liquidation of Buyer, and, if and so long as contested by Buyer, either such proceeding or petition described in this clause (ii) shall continue undismissed for ninety (90) days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for ninety (90) days.

- (c) In the event of termination under this Section 8.5, all amounts owing to IBM shall become immediately due and payable.

9.0 ENGINEERING CHANGES

9.1 IBM may implement Engineering Changes required to satisfy governmental standards, protect data integrity or for safety or environmental reasons ("Mandatory Engineering Changes"). IBM will provide reasonable written notification to Buyer prior to implementation of a Mandatory Engineering Change. IBM reserves the right prior to delivery of Product to make Mandatory Engineering Changes without prior approval from Buyer.

9.2 [\*\*\*]

9.3 For all previously shipped Product, IBM may issue Mandatory Engineering Changes (including parts, materials and documentation) at no charge to Buyer. IBM may also furnish to Buyer detailed installation instructions and any special tools, equipment, media and other related requirements for each Mandatory Engineering Change under this Agreement. Buyer must install Mandatory Engineering Changes on all Buyer installed Products and Products in its inventory



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as specified by IBM and within a reasonable time period as specified by IBM. In the event Buyer fails to perform this responsibility in the manner and time as specified by IBM, IBM may install or cause to be installed Mandatory Engineering Changes on all Buyer installed Products and Products in Buyer's inventory at Buyer's expense, to include the cost of IBM labor at the then applicable rates plus incidental travel expenses. Buyer agrees to use its best efforts to obtain access for IBM to install or cause to be installed such Mandatory Engineering Changes on all Products sold or leased by Buyer, its Related Companies and Resellers. At IBM's option, such service may be performed at an IBM location, at Buyer's location, or at Buyer's customer location.

If IBM requests the return of parts displaced from Units by installation of a Mandatory Engineering Change, Buyer will return those parts to IBM within ninety (90) days after installation of such Change.

- 9.4 IBM may make available other Engineering Changes as requested by Buyer ("Optional Engineering Changes"). The cost of any Optional Engineering Changes that Buyer desires to implement will be borne by Buyer.

10.0 PRODUCT WARRANTY

- 10.1 IBM warrants that any Units shipped under this Agreement will be free from any liens or other defects in title.
- 10.2 IBM warrants that each Unit will be free from defects in material and workmanship for the warranty period as provided in the applicable Attachment, and will conform, when delivered, to IBM's wafer and module test program for the Product and to any specifications set forth in the applicable Attachment. This warranty does not address performance or nonperformance of Product.
- 10.3 For a Product which Buyer determines during the warranty period does not conform to the warranty, IBM's obligation is limited to repairing, replacing or providing a credit for the Product. Products, as appropriate, found by Buyer to be defective shall be shipped transportation collect by Buyer to the designated IBM location. If IBM elects to repair or replace the Product, IBM will ship it back to Buyer, transportation prepaid by IBM. Exchanged parts will be free from any liens or other defects in title except as set forth in Section 6.0 above and will become the property of IBM.
- 10.4 Should any Product while under warranty returned to IBM hereunder be found by IBM to be without defect, IBM will return such Product to Buyer and invoice Buyer for return transportation and for IBM's inspection time using IBM's then applicable hourly rates. Payment will be due and payable by Buyer upon receipt of the invoice.

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10.5 This warranty does not include credit, repair or replacement for Products which are defective because of failure to provide a suitable installation environment, accident, disaster, neglect, abuse, misuse, transportation, alterations, attachments, accessories, supplies, non-IBM parts, or improperly performed repairs activities.

10.6 THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

11.0 IBM TRADEMARKS AND TRADE NAMES

11.1 Neither this Agreement nor the sale of Product hereunder shall be deemed to give Buyer any right to use IBM's trademarks or any of IBM's trade names without IBM's specific, written consent.

11.2 Buyer agrees IBM has ownership of and title to the trademark "IBM", all other trademarks and trade names of IBM, and the goodwill attaching thereto and agrees that any goodwill which accrues because of Buyer's use of the trademark "IBM" and any other trademarks and trade names of IBM shall vest in and become the property of IBM. Buyer will not contest, or take any action to contest, the trademarks or trade names of IBM, or use, employ or attempt to register any trademark or trade name which is confusingly similar to the trademarks or trade names of IBM.

11.3 If IBM in its sole judgment determine that any of Buyer's advertising, promotional or related materials are an inaccurate or misleading use or a misuse of IBM trademarks or trade names, Buyer will, upon notice from IBM, change or correct such materials at its own expense.

12.0 INTELLECTUAL PROPERTY RIGHTS INDEMNITY

12.1 IBM shall, at its own expense, defend any suit that is instituted by an owner of a patent, copyright or mask work right against Buyer to the extent such suit alleges that any Products, other than prototypes, or any part thereof sold or leased hereunder infringe any such patent, copyright or mask work right (except Products covered by Section 12.3, below), provided that such alleged infringement does not arise from any modification or addition made to the Products by anyone other than IBM, or the use of such Products as a part of or in combination with any other devices or parts or process, and provided further that the Buyer gives IBM prompt notice in writing of any such suit and permits IBM, through counsel of its choice, to answer the charge of infringement and defend such suit; and the Buyer gives IBM all the needed information, assistance and authority, at IBM's expense, to enable IBM to defend or settle such suit. In the case of a final award of

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damages in any suit IBM, shall pay such award, but shall not be responsible for any settlement made without its prior written consent. In the event the use, lease or sale of the Products is enjoined, IBM may at its own option and expense:

- 12.1.1 procure the Buyer the right to use, lease or sell such Products;
- 12.1.2 replace such Products;
- 12.1.3 modify such Products; or
- 12.1.4 remove such Products and refund the aggregate payments made by the Buyer, less a reasonable sum for use, damage and obsolescence.

12.2 THIS SECTION STATES IBM'S TOTAL RESPONSIBILITY AND LIABILITY, AND THE BUYER'S SOLE REMEDY, FOR ANY ACTUAL OR ALLEGED INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT OF ANY PRODUCTS DELIVERED HEREUNDER OR ANY PART THEREOF. THIS SECTION IS IN LIEU OF AND REPLACES ANY OTHER EXPRESS, IMPLIED OR STATUTORY WARRANTY AGAINST INFRINGEMENT.

12.3 The Buyer shall, at its own expense, indemnify and hold IBM harmless from and against any expense or loss resulting from any infringement of any patent, trademark, copyright, trade secret or mask work right arising as a result of IBM's compliance with any of the Buyer's designs specifications or instructions, and shall defend at its own expense, including attorney's fees, any suit brought against IBM alleging any such infringement provided that IBM:

- 12.3.1 gives the Buyer immediate notice of any suit and permits the Buyer, through counsel of its choice, to defend such suit; and
- 12.3.2 gives the Buyer all needed information, assistance and authority, at the Buyers expense, necessary for the Buyer to defend any such suit.

13.0 CONFIDENTIAL INFORMATION

13.1 Except as set forth in Section 13.2, all information exchanged under this Agreement will be deemed to be non-confidential. If it becomes necessary to exchange confidential information, the exchange will be made under a separate written agreement.

13.2 Each party will keep the existence of this Agreement confidential until the first Unit is shipped by IBM to Buyer and will keep its contents confidential during the existence of this Agreement and for a period of three years thereafter and will not,

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without first obtaining the written consent of the other party, disclose any portion of this Agreement or any information contained herein to any third party except as may be required to enforce this Agreement or by law. In the event such disclosure is required, the party making such disclosure will provide the other party sufficient notice for the other party to seek appropriate protection, in court if necessary. In the event of disclosure thereafter, the party making the disclosure will keep such disclosure to a minimum and protect the information so disclosed by a protective order or the like unless otherwise agreed by the parties.

14.0 LIMITATION OF REMEDIES

14.1 IBM's entire liability and Buyer's exclusive remedy are set forth in this Section:

- a) In all situations involving defects in materials or workmanship or failure of Products furnished hereunder to conform to the warranty, Buyer's remedy is provision of an appropriate credit, or repair of the Product or replacement of its parts by IBM. IBM may, at its option, replace the Product. If, after repeated efforts, IBM is unable to provide a replacement Product, all as warranted, Buyer will be entitled to recover actual direct damages to the limits set forth in this Section. For any other claim concerning IBM's performance or nonperformance pursuant to, or in any other way related to the subject matter of, this Agreement, or any Purchase Order under this Agreement, Buyer will be entitled to recover actual direct damages to the limits set forth in this Section.
- b) IBM's liability for actual direct damages for any cause whatsoever, shall be limited to the applicable price paid for the specific Units that caused the damages or that are the subject matter of, or are directly related to, the cause of action. This limitation will apply, except as otherwise stated in this Section, regardless of the form of action, whether in contract or in tort, including negligence. This limitation will not apply to Section 12.0 entitled "Intellectual Property Rights Indemnity." This limitation will not apply to claims by Buyer for bodily injury or damage to real property or tangible personal property caused by IBM's negligence.
- c) In no event will IBM be liable for any lost profits, lost savings, incidental damages or other consequential damages, even if IBM has been advised of the possibility of such damages.
- d) In addition, IBM will not be liable for any claim by Buyer based on any third-party claim, except as provided in Section 12.0 entitled "Intellectual Property Rights Indemnity" and except where the damages are for bodily injury (including death) and damage to real property and tangible personal property. In no event will IBM be liable for any damages caused by Buyer's failure to perform Buyer's responsibilities.

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- e) [\*\*\*]
- f) In addition, IBM has no liability when the Products are used in conjunction with nuclear materials or other extra-hazardous activities to the extent such liability is caused by such activities.

15.0 NOTICES

Notices required to be given under this Agreement will be sent in accordance with the applicable Attachment.

16.0 GENERAL PROVISIONS

- 16.1 Neither this Agreement nor any activities hereunder will impair any right of IBM or Buyer to design, develop, manufacture, market, service, or otherwise deal in, directly or indirectly, products or services including those which are competitive with those offered by IBM or Buyer.
- 16.2 Buyer is an independent contractor and is not an agent of IBM for any purpose whatsoever. Buyer will not make any warranties or representations on IBM's behalf, nor will it assume or create any such obligations on IBM's behalf.
- 16.3 The substantive laws of the State of New York govern this Agreement. [\*\*\*]
- 16.4 If any section or subsection of this Agreement is found by competent judicial authority to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of any such section or subsection in every other respect and the remainder of this Agreement shall continue in effect so long as the amended Agreement still expresses the intent of the parties. If the intent of the parties cannot be preserved, this Agreement shall be either renegotiated or terminated.
- 16.5 This Agreement may be modified only by a written amendment signed by persons authorized to so bind Buyer and IBM.
- 16.6 All obligations and duties which by their nature survive the expiration or termination of this Agreement shall remain in effect beyond any expiration or termination.

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- 16.7 [\*\*\*]
- 16.8 Neither party shall be responsible for failure to fulfill its obligations under this Agreement due to fire, flood, war or other such cause beyond its control and without its fault or negligence provided it promptly notifies the other party.
- 16.9 Neither party shall assign this Agreement or any rights hereunder without the prior written consent of the other party, except that IBM's rights to payments under the Agreement are freely assignable. In the event a party requests the right to assign this Agreement and the other party rejects such request, then the requesting party may terminate this Agreement without further obligation.
- 16.10 Press releases and other like publicity or advertising which mentions the other party by name shall be agreed upon by both parties in writing prior to any release.
- 16.11 The waiver by either party of an instance of the other party's noncompliance with any obligation or responsibility herein shall not be deemed a waiver of subsequent instances or of either party's remedies for such noncompliance.
- 16.12 Each party will comply with all applicable federal, state and local laws, regulations and ordinances including, but not limited to, the regulations of the U.S. Government relating to the export or re-export of machines, commodities, software and technical data insofar as they relate to the activities under this Agreement. Buyer agrees that machines, commodities, software and technical data provided under this Agreement are subject to restrictions under the export control laws and regulations of the United States of America, including, but not limited to, the U.S. Export Administration Act and the U.S. Export Administration Regulations. Buyer hereby gives its written assurance that neither machines, commodities, software or technical data provided by IBM under this Agreement, nor the direct product thereof, is intended to be shipped, directly or indirectly, to prohibited countries or nationals thereof. Buyer agrees it is responsible for obtaining required government documents and approvals to export any machine, commodity, software or technical data.
- 16.13 No license, immunity or other right is granted herein to Buyer, its Resellers or End-Users, whether directly or by implication, with respect to any patent trademark, copyright, mask work, trade secret, utility model, know-how, or other intellectual property rights of IBM.

THE PARTIES ACKNOWLEDGE THAT EACH HAS READ THIS AGREEMENT,  
ATTACHMENT 1, AND THE JUST-IN-TIME (JIT) PROGRAM SUPPLEMENT,  
UNDERSTANDS THEM, AND AGREES TO BE

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BOUND BY THEIR TERMS AND CONDITIONS. FURTHER, THE PARTIES AGREE THAT THIS AGREEMENT, ATTACHMENT 1, THE JUST-IN-TIME (JIT) PROGRAM SUPPLEMENT AND ANY INCORPORATED CONFIDENTIAL DISCLOSURE AGREEMENTS ARE THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE PARTIES, WHICH SUPERSEDES ALL PROPOSALS OF ALL PRIOR AGREEMENTS, ORAL OR WRITTEN, AND ALL OTHER COMMUNICATIONS BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF.

Agreed to:  
INTERNATIONAL BUSINESS  
MACHINES CORPORATION  
1000 River Road  
Essex Jct., Vermont 05452

Agreed to:  
WESTERN DIGITAL  
CORPORATION  
20511 Lake Forest Drive  
Lake Forest, California 92630

By: /s/ JOHN G. BEISWENGER

By: /s/ JOHN F. COYNE

-----  
Name: John G. Beiswenger  
Title: Executive Manager, MD WW  
Contracts & Business  
Practices, T. G.

-----  
Name: John F. Coyne  
Title: Senior V.P. Worldwide  
Operations

Date: March 2, 2001

Date: 15 February 2001

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[PAGES 15 THROUGH 24 ARE INTENTIONALLY OMITTED. ATTACHMENT 1 AND THE JIT PROGRAM  
SUPPLEMENT HAVE BEEN AMENDED AND RESTATED IN THEIR ENTIRETY AND ARE INCLUDED AS  
EXHIBIT 10.36.3 TO THE REGISTRANT'S FORM 10-K FOR THE YEAR ENDED JUNE 28, 2002]



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Participation Agreement

EFFECTIVE DATE OF THIS PARTICIPATION AGREEMENT ("PA"): February 7, 2001.

This PA adopts and incorporates by reference all of the terms and conditions of the Agreement for Fabrication and Purchase of Semiconductor Products No. 000690 between International Business Machines Corporation and Western Digital Corporation (the "Base Agreement").

The parties to this PA agree that purchases and sales of Products, as defined in the Base Agreement, will be conducted in accordance with, and be subject to, the terms and conditions of this PA, the Base Agreement and any applicable Attachments and Supplements.

The following terms and conditions amend provisions of the Base Agreement for purposes of this PA only: [IDENTIFY ANY DIFFERENT TERMS].

[\*\*\*]

In the event the Base Agreement is terminated, the terms and conditions of the Base Agreement incorporated by reference herein shall survive such termination and remain in effect for purposes of this PA only.

ACCEPTED AND AGREED TO:

ACCEPTED AND AGREED TO:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

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Amendment No 1  
To the Agreement for Fabrication and Purchase of Semiconductor Products

Customer Name: Western Digital Agreement Number: 000690  
Customer Number: WD 1

The parties agree that the Agreement for Fabrication and Purchase of Semiconductor Products between Western Digital Corporation ("Buyer") and International Business Machines Corporation ("IBM") with Agreement No. 000690 (the "Agreement") is amended as of December 18, 2001 as follows:

1. Delete Section 7.1 of the Agreement in its entirety and replace it with the following:

7.1 [\*\*\*]

[REST OF PAGE INTENTIONALLY BLANK.]

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2. Except as expressly set forth in this Amendment No. 1 to the Agreement for Fabrication and Purchase of Semiconductor Products (this "Amendment No. 1") and in the First Amended and Restated Attachment 1 to the Agreement for Fabrication and Purchase of Semiconductor Products (the "First Amended and Restated Attachment No. 1"), the Agreement remains in full force and effect without further modification. The terms and conditions of the Agreement, this Amendment No. 1 and the First Amended and Restated Attachment No. 1, shall not be further modified or amended, except by a writing signed by authorized representatives of both parties.

Accepted and Agreed To:

Western Digital Technologies, Inc.  
Corporation

International Business Machines

By: /s/ John Francis Coyne

By: /s/ John G. Beiswenger

Name: John Francis Coyne

Name: John G. Beiswenger

Title: Senior Vice President, WW  
Operations

Title: Exec. Mngr. MD WW  
Contracts & Bus. Pract., IBM TG

Date: 21st December 2001

Date: 12/20/01

AMENDMENT 2 TO THE AGREEMENT FOR FABRICATION AND PURCHASE OF SEMICONDUCTOR PRODUCTS (AGREEMENT 000690)

This Amendment 2 to the Agreement for Fabrication and Purchase of Semiconductor Products with an agreement number 000690 ("Amendment 2") is made and entered into between Western Digital Technologies, Inc. (f/n/a Western Digital Corporation) ("Buyer"), and International Business Machines Corporation ("IBM"). This Amendment 2 shall be effective as of June 19, 2002 (the "Effective Date").

WHEREAS IBM and Buyer are parties to the Agreement for Fabrication and Purchase of Semiconductor Products with an agreement number 000690, having an effective date of February 7, 2001 (the "Agreement");

WHEREAS IBM and Buyer desire to amend the Agreement as set forth herein;

NOW THEREFORE the parties hereby agree as follows:

1. Extension of the term of the Agreement. The expiration of the term of the Agreement is extended from February 7, 2003 to December 31, 2003.

2. No Other Amendment or Modification. Except as expressly set forth in this Amendment 2 and any Attachments to the Agreement signed by the parties, the Agreement, as amended pursuant to Amendments 1 and 2, remains in full force and effect without further modification. The terms and conditions of the Agreement and such Amendments shall not be further modified or amended except by a writing signed by authorized representatives of both parties.

ACCEPTED AND AGREED TO:

WESTERN DIGITAL TECHNOLOGIES, INC.

INTERNATIONAL BUSINESS MACHINES CORPORATION

BY: /s/ Thomas Nieto  
-----

BY: /s/ John G. Beiswenger  
-----

NAME: Thomas Nieto

NAME: JOHN G. BEISWENGER

TITLE: V.P., Materials

TITLE: EXEC. MGR., WW CONTRACTS & BUSINESS PRACTICES, IBM TG

DATE: 19 - June '02  
-----

DATE: June 19, 2002  
-----

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Third Amended and Restated ATTACHMENT No. 1  
To the Agreement for Fabrication and Purchase of Semiconductor Products

Customer Name: Western Digital Technologies, Inc. Agreement Number: 000690  
Customer Number: WD 1

The parties agree that Attachment No. 1 under the Agreement for Fabrication and Purchase of Semiconductor Products between Western Digital Technologies, Inc. (f/k/a Western Digital Corporation) ("Buyer") and International Business Machines Corporation ("IBM") with Agreement No. 000690 is amended and restated as of June 19, 2002 (the "Attachment Effective Date") in its entirety to read as follows:

PRODUCT PURCHASE INFORMATION AND SPECIFICATIONS FOR  
THE I295TLC, TALON and REDWING PRODUCTS

1.0 Product Description and Specifications:

TABLE I

Product Name	I295TLC	Talon
Product Type	ASIC (1)	Read Channel
ASIC Family	SA27E	Not applicable
Process Technology	CMOS7SF/4LM	CMOS 7SF/4LM
Ldrawn	0.15um	0.15um
Chip Size (mm)	4.23x4.23	2.79x2.85
Package Description	176LQFP(2)	80TQFP-EP
Product Name	Redwing	
Product Type	Read Channel	
ASIC(1) Family	Not applicable	
Process Technology	CMOS 7SF/4LM	
Ldrawn	0.15um	
Chip Size (mm)	3.0611 x 2.7388	
Package Description	80TQFP-EP	

(1) Application Specific Integrated Circuit

(2) 24x24mm body size, 0.5mm OLB pitch, 1.6mm height

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2.0 Volume Purchase Commitments for Talon and I295TLC Chipset in 2002

- 2.1 For purposes of this Section 2.0, Chipset shall mean the combination of one Unit of the Talon and one Unit of the I295TLC Product.
- 2.2 Buyer agrees to purchase the minimum amounts of Chipsets to be shipped and invoiced during the calendar quarters listed below in TABLE III. As of the Attachment Effective Date, Buyer has already placed Blanket Purchase Orders consistent with this Section 2.2 and TABLE III. Buyer shall forecast and set delivery schedules and IBM shall deliver the Chipsets in accordance with the JIT Program Supplement attached hereto; provided that Buyer may reschedule the delivery of the Chipsets in accordance with Section 4 of the JIT Supplement attached hereto, except that the rescheduled Shipment Date may not fall on a date outside of the calendar quarter of the originally scheduled Shipment Date, unless both parties agree in writing. The prices listed below in TABLE III shall apply to the Chipsets shipped during the respective calendar quarters listed in TABLE III. Notwithstanding the cancellation charges set forth in Section 7.3 (a) and (b) of this Attachment 1, Buyer will pay the applicable cancellation charge as indicated in TABLE II below for any cancellation of the Purchase Orders for its minimum purchase commitment as set forth in this Section 2.2. The Cancellation Fee in TABLE II below is the percentage of the price for any Product for which Buyer cancelled the Purchase Order.

TABLE II

[***]	[***]
[***]	[***]

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TABLE III

Quarter	Product	Volume+	Price*	I295TLC Unit Price	Talon Unit Price**	Payment Terms
1Q'02	Chipset	[***] [***]	[\$***] [\$***]	[\$***] [\$***]	[\$***] [\$***]	Net [***] days++ Net [***] days+++
2Q'02	Chipset	[***] [***]	[\$***] [\$***]	[\$***] [\$***]	[\$***] [\$***]	Net [***] days*** Net [***] days
3Q'02	Chipset	[***]	[\$***]	[\$***]	[\$***]	Net [***] days****
4Q'02	Chipset	[***]	[\$***]	[\$***]	[\$***]	Net [***] days

+ [\*\*\*].

\* The price stated is the price for one (1) Chipset.

\*\* The Talon Unit price applies only when Buyer purchases a complete Chipset.

++ [\*\*\*] of the [\*\*\*] of the 1Q'02 I295TLC Product was shipped December of 2001 with net [\*\*\*] day payment terms.

+++ For this Purchase Order of [\*\*\*] Chipsets, if all [\*\*\*] Chipsets are shipped on the last day of the first calendar quarter of 2002, the payment terms shall be net [\*\*\*] days.

\*\*\* The [\*\*\*] Units of the I295TLC Product will be shipped in March 2002, at a price of \$[\*\*\*] and with net [\*\*\*] day payment terms [\*\*\*] Units of the Chipset, the [\*\*\*] Talons, shall be shipped in the second calendar quarter of 2002 in accordance with the JIT Program Supplement. The price for such Talons shall be \$[\*\*\*] and the payment terms shall be net [\*\*\*] days.

\*\*\*\* Notwithstanding the foregoing, Buyer agrees that IBM will ship the [\*\*\*] I295TLC Products to Buyer on June 29, 2002 or June 30, 2002, with net [\*\*\*] day payment terms.

2.3 In addition to those volumes listed in Table III, Buyer also agrees to purchase the minimum amounts of Talon, I295TLC, and Redwing Product to be shipped and invoiced during the calendar quarters listed below in TABLE IV; provided, however, that as to the Talon Product required to be purchased in the third quarter and fourth quarter of 2002 and the first quarter of 2003, Buyer may request the shipment of up to an aggregate of [\*\*\*] Units on the last day of the third



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quarter of 2002, up to an aggregate of [\*\*\*] Units the last day of the fourth quarter of 2002, and up to an aggregate of [\*\*\*] Units the last day of the first quarter of 2003, in accordance with Section 4 of the JIT Program Supplement attached hereto. [\*\*\*] Units may be rescheduled by Buyer in accordance with Section 4 of the JIT Program Supplement, except that the rescheduled delivery date may not fall on a day outside the calendar quarter that corresponds to the Product in Table IV, unless both parties agree in writing. Notwithstanding the foregoing sentence, Buyer may reschedule [\*\*\*] Units of the Talon Product to be delivered in the first calendar quarter of 2003 in accordance with the terms of JIT Program Supplement. No later than five business days after the Attachment Effective Date, Buyer shall place Blanket Purchase Orders consistent with this Section 2.3 and TABLE IV for the Redwing and I295TLC Product and change orders for the Talon Product. IBM will accept such Blanket Purchase Orders and change orders without regard to leadtime requirements or imposition of cancellation fees, provided that Buyer submits such Purchase Order within five business days after the Attachment Effective Date. Buyer shall forecast and set delivery schedules and IBM shall deliver the Product in accordance with the JIT Program Supplement attached hereto. The prices listed below in TABLE IV shall apply to the Talon, I295TLC, and Redwing Product to be shipped during the respective calendar quarters listed in TABLE IV. Notwithstanding the cancellation charges set forth in Section 7.3 (a) and (b) of this Attachment 1, Buyer will pay the applicable cancellation charge as indicated in TABLE II above for any cancellation of any Purchase Order or any failure to issue Purchase Orders as set forth in this Section 2.3. The Cancellation Fee in TABLE II above is [\*\*\*] for any Product for which Buyer cancelled the Purchase Order or failed to issue a Purchase Order.

TABLE IV

Quarter	Product	Volume+	Price per Unit	Payment Terms
2Q'02	Talon	[***]	\$[***]	Net [***] days
2Q'02	Talon	[***]	\$[***]	Net [***] days
3Q'02	Talon	[***]	\$[***]	Net [***] days
3Q'02	Redwing	[***]	\$[***]	Net [***] days
4Q'02	Talon	[***]	\$[***]	Net [***] days
4Q'02	Redwing	[***]	\$[***]	Net [***] days
4Q'02	I295TLC	[***]	\$[***]	Net [***] days
1Q'03	Talon	[***]	\$[***]	Net [***] days

+ [\*\*\*]

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- 2.5 Notwithstanding the cancellation fees set forth in TABLE II above, Buyer's obligations to pay the cancellation fees in TABLE II shall be subject to the following. IBM may start manufacturing the Chipsets set forth in TABLE III and the Talon, I 295TLC and Redwing Product set forth in TABLE IV at any time. However, if IBM, without Buyer's express prior written approval commences manufacturing the Chipsets or the Talon, I 295TLC and Redwing Products outside of [\*\*\*] times the Purchase Order Lead Time as shown in Section 6.0 and Buyer cancels such Chipsets and/or Products before they are within [\*\*\*] times the Purchase Order Lead Time, then Buyer's only obligation is to pay a [\*\*\*] cancellation fee for such cancelled Product.
- 2.6 Cancellation Procedures for Chipsets in TABLE III and the Talon, I 295TLC and Redwing Products in Table IV: In the event that Buyer cancels Chipsets in TABLE III or the Talon, I 295TLC, or Redwing Products in TABLE IV under this Section 2.6, the following cancellation procedures will apply:
- 2.6.1 Buyer shall provide IBM with written notice of the cancellation, specifying the number of Units to be cancelled and for which calendar quarter such cancellation applies;
  - 2.6.2 IBM shall provide Buyer with a written notice stating the number of Units (if any) for which it had started wafers and the total amount of the cancellation charge, which shall be due [\*\*\*] days after IBM provides such notice;
  - 2.6.3 [\*\*\*]
  - 2.6.4 [\*\*\*]

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

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[\*\*\*]

2.6.5 [\*\*\*]

3.0 [\*\*\*]

3.1 [\*\*\*]

3.2 Buyer shall pay the following cancellation charges for the  
cancellation of any purchase order issued under Section 3.1 or  
for any reduction to such purchase order to the extent of such  
reduction:

Cancellation Schedule for Products  
To Be Delivered in the Second Calendar Quarter of 2003

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

[\*\*\*]

SIGNATURE VERSION

3.3 The price for the Talon Products to be delivered under this Section 3.0 (including the Talon Demand) shall be \$[\*\*\*] per Unit. The payment terms are net [\*\*\*] days.

3.4 [\*\*\*]

4.0 Product Price

4.1 For all Product sold under this Attachment, the Product price will be held firm and will not be increased on Purchase Orders accepted by IBM. IBM agrees to discuss Prices at Buyer's request.

4.2 For all Product sold under this Attachment, unless otherwise specified, the prices set forth in this Agreement do not include taxes, duties and freight charges. If applicable, taxes, duties and freight charges will appear as separate additional items on IBM's invoice, but failure to include any tax, duty or freight charge shall not affect Buyer's responsibility for such.

4.3 For Products that are not sold as part of a Chipset in Section 2.2 or as part of the volume purchase commitment in Section 2.3 and Section 3.1, the Product Unit

"[\*\*\*]" INDICATES REDACTED INFORMATION FOR WHICH  
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pricing for I295TLC, Talon and Redwing below applies to Product shipped during the applicable calendar quarter.

	I295TLC -----	Talon -----	Redwing -----
Q4'01	\$[***]	\$[***]	[***]
Q1'02	\$[***]	\$[***]	[***]
Q2'02	\$[***]	\$[***]	[***]
Q3'02	\$[***]	\$[***]	\$[***]
Q4'02	\$[***]	\$[***]	\$[***]

\* [\*\*\*] Units of Talon Product shipped in March 2002 shall have a purchase price of \$[\*\*\*] each and shall have net [\*\*\*] day payment terms.

5.0 Purchase Orders

[\*\*\*] Purchase Orders must be placed in advance, with at least the Purchase Order Lead Time specified in Section 6.0, to allow IBM to meet Buyer's requested Shipment Date. Buyer may request an improved shipment date, however, such request is subject to acceptance by IBM.

6.0 Purchase Order Lead Time:

Product -----	Purchase Order Lead Time/Weeks -----
I295TLC	[***] weeks
Talon	[***] weeks
Redwing	[***] weeks

Notwithstanding any other term of this Agreement, the Purchase Order Lead Times above do not include the time in which IBM has to reply to Buyer's Purchase Order.

7.0 Cancellation, Change Orders and Rescheduling Provisions for Products

7.1 Buyer may cancel or alter a Purchase Order or any portion thereof upon written notice to IBM. In any such event, a cancellation charge will immediately become due for each cancelled Unit or Chipset as specified under this Agreement.

7.2 [\*\*\*]

SIGNATURE VERSION

[\*\*\*]

[\*\*\*]

7.3 The cancellation charges for Chipsets ordered pursuant to Section 2.2 and TABLE III, the Talon, Redwing, and I295TLC Product ordered pursuant to Section 2.3 and TABLE IV, and [\*\*\*] pursuant to Section 5 of the JIT Supplement are stated in Section 2.2, TABLE II and Section 2.5. The cancellation charges for Talon Product ordered pursuant to Section 3.1 are stated in Section 3.2. Cancellation charges for any additional I295TLC, Redwing, and Talon Products ordered are as follows:

[\*\*\*]

[\*\*\*]

7.4 Buyer may issue change orders to previously accepted Purchase Orders for IBM's acceptance. In such change orders, Buyer may request (1) an increase or decrease of quantity of Products it ordered; (2) different Product from the Product originally ordered or (3) an earlier delivery date. IBM may accept or reject the change order. In the event that IBM accepts or is required to accept a change order, the newly accepted change order becomes an accepted Purchase Order, replacing the original Purchase Order. Notwithstanding the above, Buyer reserves the right to reschedule deliveries per Sections 2.2 and 2.3 of this Attachment 1 and Section 4 of the JIT Program Supplement attached hereto. If a change order is identified as exercising this reschedule right, IBM will accept that change order per the conditions set forth in the relevant sections.

8.0 Shipment

8.1 The delivery terms for Products are as stated in the table below, with title passing to Buyer upon shipment from the "Shipment From" location in the table. For shipments

"[\*\*\*]" INDICATES REDACTED INFORMATION FOR WHICH  
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not covered by the table below, Buyer is responsible for all freight and duty charges from IBM's shipping location and title and risk of loss pass to the Buyer upon tender to the carrier for shipment to the Buyer.

SHIPMENTS FROM	SHIPMENTS TO	INCOTERM*
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

\* As defined in ICC 2000 Incoterms.

8.2 [\*\*\*]

9.0 Quality Assurance

9.1 IBM will follow its standard workmanship and quality assurance procedures for Products sold under this Agreement.

9.2 [\*\*\*]

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[\*\*\*]

9.3 [\*\*\*]

[\*\*\*]

[\*\*\*]

10.0 Warranty Period

The Warranty Period for Products under this Attachment is [\*\*\*] years from delivery. For purposes of this Section 10, delivery to Buyer of each Unit is deemed to occur five (5) days after shipment from IBM's plant or distribution point.

11.0 Redwing NRE

11.1 Buyer shall make payments for a nonrecurring engineering ("NRE") charge of \$[\*\*\*] for the development of the Redwing Product, which shall be due in \$[\*\*\*] increments upon the following dates:

1Q'02: 02/15/02  
2Q'02: 05/15/02  
3Q02: 08/15/02  
4Q02: 11/15/02

11.2 Prior to the Attachment Effective Date, Buyer submitted a purchase order for the entire NRE charge of \$[\*\*\*] and has already made the \$[\*\*\*] payments due in each of the first and second quarters of 2002. Neither party may cancel the Redwing NRE.

11.3 [\*\*\*]

12.0 Notices



SIGNATURE VERSION

All notices required to be given under this Agreement will be in writing and deemed given if sent postage prepaid or by facsimile transmission (FAX), receipt confirmed by intended recipient, to the parties as follows:

IBM:

IBM Corp.  
Attn: Contract Administrator  
1000 River Street, 965-3B  
Essex Jct., Vermont 05452  
Fax: [\*\*\*]

BUYER:

Western Digital Technologies, Inc.  
Attn: General Counsel  
20511 Lake Forest Drive  
Lake Forest, California 92630  
Fax: (949)-672-5444

13.0 No Other Amendment or Modification. This Third Amended and Restated Attachment No. 1 amends and restates the Second Amended and Restated Attachment No. 1 with an Attachment Effective Date of April 11, 2002. IBM previously retracted and agreed that the Second Amended and Restated Attachment No. 1 superseded IBM's letter dated March 1, 2002 as to the discontinuance of the I295TLC, Talon and Redwing Products. Accordingly, those Products have not been discontinued. Except as expressly set forth in this Third Amended and Restated Attachment No. 1, the Agreement, as amended by Amendment No. 1 dated December 18, 2001 and Amendment 2 dated June 19, 2002, remains in full force and effect without further modification. The terms and conditions of the Agreement, as amended, and this Third Amended and Restated Attachment No. 1 shall not be further modified or amended except by a writing signed by authorized representatives of both parties.

ACCEPTED AND AGREED TO AS OF THE ATTACHMENT EFFECTIVE DATE:

Western Digital Technologies, Inc.

International Business Machines  
Corporation

By: /s/ Thomas Nieto  
-----

By: /s/ John G. Beiswenger  
-----

Name: Thomas Nieto  
-----  
(print or type name)

Name: John G. Beiswenger  
-----

Title: V.P., Materials  
-----  
(print or type title)

Title: Exec. Mgr., MD WW Contracts &  
Business Practices, IBM TG  
-----

Date: 19-June '02  
-----

Date: June 19, 2002  
-----

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

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JUST-IN-TIME (JIT) PROGRAM SUPPLEMENT  
TO THE AGREEMENT FOR FABRICATION AND PURCHASE OF SEMICONDUCTOR PRODUCTS

[\*\*\*]

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

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## SEVENTH AMENDMENT TO CREDIT AGREEMENT

THIS SEVENTH AMENDMENT TO CREDIT AGREEMENT ("Amendment") is entered into as of June 28, 2002, by and among WESTERN DIGITAL TECHNOLOGIES, INC., a Delaware corporation formerly known as Western Digital Corporation ("Borrower"), the other credit parties party hereto (each individually a "Credit Party" and collectively, the "Credit Parties"), the lenders signatory hereto (each individually a "Lender" and collectively the "Lenders"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as administrative agent for Lenders (in such capacity, "Agent"), and BANK OF AMERICA, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent").

## RECITALS

A. Borrower, the other Credit Parties party thereto, Lenders, and Co-Agents have entered into the Credit Agreement dated as of September 20, 2000, as amended by the First Amendment to Credit Agreement dated as of March 8, 2001, the Second Amendment to Credit Agreement dated as of March 23, 2001, the Third Amendment to Credit Agreement dated as of April 7, 2001, the Fourth Amendment to Credit Agreement dated as of September 26, 2001, the Fifth Amendment to the Credit Agreement dated as of December 21, 2001, and the Sixth Amendment to the Credit Agreement dated as of January 11, 2002 (collectively, "Credit Agreement"), pursuant to which Co-Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

B. Borrower has requested that Co-Agents and Requisite Lenders amend the Credit Agreement, and Co-Agents and Lenders are willing to do so subject to the terms and conditions of this Amendment.

## AGREEMENT

NOW, THEREFORE, in consideration of the continued performance by Borrower and each other Credit Party of their respective promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, the other Credit Parties signatory hereto, Lenders, and Co-Agents hereby agree as follows:

1. Ratification and Incorporation of Credit Agreement. Except as expressly modified under this Amendment, (a) each Credit Party hereby acknowledges, confirms, and ratifies all of the terms and conditions set forth in, and all of its obligations under, the Credit Agreement, and (b) all of the terms and conditions set forth in the Credit Agreement are incorporated herein by this reference as if set forth in full herein.

2. Amendment to Credit Agreement.



(a) Section 6.1(viii)(B) of the Credit Agreement is hereby amended by deleting the reference to "and under the definition of "Permitted Excluded Subsidiary Transactions" set forth in Annex A" therein.

(b) Sections 6.2(c) and 6.3(a)(vi) of the Credit Agreement are hereby amended by deleting the reference to "Permitted Excluded Subsidiary Transactions and" therein.

(c) Section 6.3(b) of the Credit Agreement is hereby amended by (i) deleting the "and" immediately preceding clause (iv), (ii) replacing the period at the end thereof with "; and" and (iii) adding the following new clause (v) at the end thereof:

(v) the repayment of Subordinated Debt to the extent permitted in Section 6.14.

(d) Section 6.5(b)(iii) of the Credit Agreement is hereby amended by adding "repurchase or" immediately preceding the reference therein to "refinance".

(e) Section 6.14 of the Credit Agreement is hereby amended by (i) deleting the "and" immediately preceding clause (f), (ii) replacing the period at the end thereof with "; and" and (iii) adding the following new clause (g) at the end thereof:

(g) the redemption, purchase, retirement, defeasance or similar payments made to holders of Borrower's Subordinated Debt so long as such payments do not exceed \$15,000,000 in the aggregate during any Fiscal Quarter.

(f) The following definitions are hereby added to Annex A to the Credit Agreement in appropriate alphabetical order:

"Designated Eligible Foreign Account" shall mean an Eligible Foreign Account that is an obligation of any of the Account Debtors listed on Annex K.

"Seventh Amendment" shall mean the Seventh Amendment to Credit Agreement dated as of June 18, 2002.

(g) Annex A to the Credit Agreement is hereby amended by deleting the definitions of the following terms:

(i) "Combined Expenditures"; and

(ii) "Permitted Excluded Subsidiary Transactions".

(h) Clause (b) of the definition of the term "Borrowing Base" in Annex A to the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu thereof:

(b) the least of (i) \$50,000,000, (ii) 25% of the value of all Collateral included in clauses (a), (b) and (c) of this definition of "Borrowing Base," and (iii) (A) 85% of (I) Borrower's Designated Eligible Foreign Accounts,

in each case up to the respective Eligibility Cap listed on Annex K for each foreign Account Debtor of Borrower set forth on Annex K, and (II) Borrower's Eligible Foreign Accounts (other than the Designated Eligible Foreign Accounts), subject to an acceptable credit review by Co-Agents of the foreign Account Debtors of Borrower, minus (B) the Dilution Reserve with respect to such Eligible Foreign Accounts; plus

(i) Paragraph (a) of Annex G to the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu therefor:

(a) Maximum Capital Expenditures. Borrower and its subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make aggregate Capital Expenditures, at the end of each Fiscal Quarter set forth below for the 12-month period then ended, that exceed the respective amounts set forth opposite such periods:

Period Ending On -----	Maximum Capital Expenditures -----
June 28, 2002	\$65,000,000
September 27, 2002	\$75,000,000
December 27, 2002	\$75,000,000
March 28, 2003	\$80,000,000
June 27, 2003	\$80,000,000

provided; that, beginning with the Fiscal Year ending June 28, 2002, and for each Fiscal Year thereafter, to the extent that the maximum capital expenditure amount identified above (the "Maximum Capital Expenditure") for any such Fiscal Year (i.e., Year 1) exceeds the amount of Capital Expenditures actually made by Borrower and such Subsidiaries during such Fiscal Year (such excess being the "Excess Amount"), then the amount of permitted Capital Expenditures for each period above that ends during the immediately succeeding Fiscal Year (i.e., Year 2) will be increased by the positive amount (the "Carry Over Amount") equal to (i) the lesser of (A) the Excess Amount and (B) 25% of the amount of the Maximum Capital Expenditure for such Fiscal Year (i.e., Year 1), minus (ii) that portion of the Excess Amount, if any, expended during a previous period during such succeeding Fiscal Year. For purposes of measuring compliance herewith, the Carry Over Amount shall be deemed to be the last amount spent on Capital Expenditures in any Fiscal Quarter.

(j) Paragraph (c) of Annex G to the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu therefor:

(c) Minimum Tangible Net Worth. Borrower and its subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall maintain Tangible Net Worth, at the end of each Fiscal Quarter set forth below, equal to or greater than the respective amounts set forth opposite such periods:

Period Ending On -----	Tangible Net Worth -----
June 28, 2002	\$81,600,000
September 27, 2002	\$89,000,000
December 27, 2002	\$100,100,000
March 28, 2003	\$109,100,000
June 27, 2003	\$117,800,000

(k) Paragraph (d) of Annex G to the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu therefor:

(d) Borrower and its Subsidiaries (other than the Excluded Subsidiaries) on a consolidated basis shall not make New Venture Investments (i) in an aggregate amount that exceeds \$5,000,000 during the Fiscal Quarter ending on June 28, 2002, or (ii) in any amount on or after June 29, 2002.

(l) GE Capital's wire transfer information in Annex H to the Credit is hereby amended by deleting the reference to "Bankers Trust" as the Bank Name therein and replacing it with "Deutsche Bank Trust Company Americas" in lieu therefor.

(m) Annex K to the Credit Agreement is hereby added to the Credit Agreement, a copy of which is attached hereto as APPENDIX A.

(n) Index of Appendices to the Credit Agreement is hereby deleted in its entirety and the revised version of the Index of Appendices attached hereto as APPENDIX B is substituted in lieu thereof.

### 3. Waivers under Credit Agreement.

(a) Pursuant to Section 6.1(a) of the Credit Agreement, Credit Parties are prohibited from forming or acquiring any Subsidiary except as otherwise provided therein. Co-Agents and Requisite Lenders have been informed that Borrower has formed Western Digital Korea, Ltd., a corporation organized under the laws of the Republic of Korea ("WD Korea"), which is a wholly-owned Subsidiary of Borrower. At the request of Borrower, Co-Agents and Requisite Lenders hereby waive any Default or Event of Default that has occurred as a result of the formation of WD Korea; provided, that (i) WD Korea shall remain a wholly-owned Subsidiary of Borrower, (ii) the aggregate amount of capital paid or payable to WD Korea by Borrower or any other Credit Party as of any date shall not exceed the amount of \$5,000,000, (iii) the fair market value of the assets of WD Korea shall not be in excess of \$10,000,000, and (iv) WD Korea shall be an Excluded Subsidiary for purposes of the Credit Agreement and the other Loan Documents. If Borrower, any other Credit Party, or WD Korea fails to comply with either clauses (i), (ii) or (iii) of the preceding sentence, then such failure shall constitute an Event of Default under the Loan Documents.

(b) Pursuant to Section 6.14 of the Credit Agreement, Credit Parties are prohibited from making any Restricted Payments except as otherwise provided therein. Co-Agents and Requisite Lenders have been informed that Borrower has made Restricted Payments prior to the date hereof to holders of Borrower's Subordinated Debt in connection with the

redemption, purchase, retirement or defeasance of Subordinated Debt in the aggregate amount of \$13,437,532.00. At the request of Borrower, Co-Agents and Requisite Lenders hereby waive any Default or Event of Default that has occurred as of the date hereof as a result of payments made by Borrower to holders of Borrower's Subordinated Debt in the aggregate amount of \$13,437,532.00, in connection with the redemption, purchase, retirement or defeasance of the Subordinated Notes described in that certain list of Subordinated Notes previously provided by Borrower to Agent and Requisite Lenders.

4. Conditions to Effectiveness. The effectiveness of this Amendment is subject to satisfaction of each of the following conditions:

(a) receipt by Co-Agents of this Amendment duly executed by Borrower, each of the other Credit Parties, Co-Agents and Requisite Lenders;

(b) payment of a \$50,000 amendment fee by Borrower to Agent, for the ratable benefit of Lenders; and

(c) the absence of any Defaults or Events of Default as of the date hereof.

5. Entire Agreement. This Amendment, together with the Credit Agreement, the other Loan Documents and the letter agreement of even date herewith among Borrower, each of the other Credit Parties, Co-Agents and Requisite Lenders, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof.

6. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or any other Credit Party, as applicable, has previously advised Co-Agents in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof.

7. Reaffirmation by Guarantors. Each Credit Party that is also a Guarantor, by its execution of this Amendment, consents to the terms hereof and ratifies and reaffirms all of the provisions of the Guaranties.

8. Miscellaneous.

(a) Counterparts. This Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

(b) Headings. Section headings used herein are for convenience of reference only, are not part of this Amendment, and are not to be taken into consideration in interpreting this Amendment.

(c) Recitals. The recitals set forth at the beginning of this Amendment are true and correct, and such recitals are incorporated into and are a part of this Amendment.

(d) Effect. Upon the effectiveness of this Amendment, from and after the date hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby and each reference in the other Loan Documents to the Credit Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(e) No Novation. Except as expressly provided in Sections 2 and 3 of this Amendment, the execution, delivery, and effectiveness of this Amendment shall not (i) limit, impair, constitute a waiver of, or otherwise affect any right, power, or remedy of any Co-Agent or any Lender under the Credit Agreement or any other Loan Document, (ii) constitute a waiver of any provision in the Credit Agreement or in any of the other Loan Documents, or (iii) alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(f) Conflict of Terms. In the event of any inconsistency between the provisions of this Amendment and any provision of the Credit Agreement, the terms and provisions of this Amendment shall govern and control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Seventh Amendment to Credit Agreement has been duly executed as of the date first written above.

GENERAL ELECTRIC CAPITAL CORPORATION,  
as Administrative Agent, a Co-Agent and  
a Lender

By: /s/ Scott B. Kaplan  
-----  
Name: Scott B. Kaplan  
-----  
Duly Authorized Signatory

BANK OF AMERICA, N.A.,  
as Documentation Agent, a Co-Agent and  
a Lender

By: /s/ David Knoblauch  
-----  
Name: David Knoblauch  
-----  
Title: SVP  
-----

THE CIT GROUP/BUSINESS CREDIT, INC.,  
as a Lender

By: /s/ Dale George  
-----  
Name: Dale George  
-----  
Title: Vice President  
-----

WESTERN DIGITAL TECHNOLOGIES, INC.,  
a Delaware corporation formerly known as  
Western Digital Corporation

By: /s/ Steven M. Slavin  
-----  
Name: Steven M. Slavin  
-----  
Title: Vice President, Taxes & Treasurer  
-----

[Signatures Continued on Following Page]

WESTERN DIGITAL (U.K.), LTD.,  
a corporation organized under the laws  
of the United Kingdom

By: /s/ Michael A. Cornelius

-----  
Name: Michael A. Cornelius

-----  
Title: Assistant Secretary  
-----

WESTERN DIGITAL (I.S.) LIMITED,  
a corporation organized under the laws  
of Ireland

By: /s/ Michael A. Cornelius

-----  
Name: Michael A. Cornelius

-----  
Title: Director  
-----

APPENDIX A

Annex K

to Credit Agreement

List of Designated Eligible Foreign Account Debtors with Eligibility Caps

Designated Eligible Foreign Account Debtor -----	Eligibility Cap for all Accounts Owing by Foreign Account Debtor -----
Achieva Technology PTE Ltd.	\$8,000,000
Al Yousuf LLC	\$2,000,000
Digiland International Ltd.	\$2,500,000
Elko Grupa AS	\$3,500,000
Fujitsu Coworco Ltd.	\$2,500,000
Genuine C & C (H.K.) Limited	\$8,000,000
Giga-Byte Technology Co., Ltd.	\$2,000,000
Jamjoon Advanced Technology	\$1,000,000
Karma Distribution (S) PTE Ltd.	\$7,500,000
North Africa Import Export & Contracting	\$2,000,000
ProCA spol. s r.o.	\$1,000,000



APPENDIX B

INDEX OF APPENDICES

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Annex B (Section 1.2)	-	Letters of Credit
Annex C (Section 1.8)	-	Cash Management System
Annex D (Section 2.1(a))	-	Schedule of Documents
Annex E (Section 4.1(a))	-	Financial Statements and Projections -- Reporting
Annex F (Section 4.1(b))	-	Collateral Reports
Annex G (Section 6.10)	-	Financial Covenants
Annex H (Section 9.9(a))	-	Lenders' Wire Transfer Information
Annex I (Section 11.10)	-	Notice Addresses
Annex J (Annex A)	-	Commitments as of Closing Date
Annex K (Annex A)	-	Designated Eligible Foreign Accounts
Exhibit 1.1(a)(i)	-	Form of Notice of Revolving Credit Advance
Exhibit 1.1(a)(ii)	-	Form of Revolving Note
Exhibit 1.1(b)(ii)	-	Form of Swing Line Note
Exhibit 1.5(e)	-	Form of Notice of Conversion/Continuation
Exhibit 4.1(b)	-	Form of Borrowing Base Certificate
Exhibit 9.1(a)	-	Form of Assignment Agreement
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Disclosure Schedule (3.2)	-	Executive Offices; Collateral Locations; FEIN
Disclosure Schedule (3.4(a))	-	Financial Statements
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Disclosure Schedule (3.12)	-	ERISA Plans
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Disclosure Schedule (3.15)	-	Intellectual Property
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Disclosure Schedule (6.6)	-	Guaranteed Indebtedness
Disclosure Schedule (6.7)	-	Existing Liens

[WESTERN DIGITAL LETTERHEAD]

March 31, 2002

Mr Michael A. Cornelius  
25196 Black Horse Lane  
Laguna Hills CA 92653

Dear Michael:

This letter, when signed by you, constitutes the agreement (the "Agreement") relative to your retirement from Western Digital Corporation ("WDC") and Western Digital Technologies, Inc. ("WDT" and, collectively with WDC, the "Company"). In consideration for the covenants and releases contained herein, you and the Company agree as follows:

1. TRANSITION PERIOD. You voluntarily retired from your position as Vice President, Law and Administration, and Secretary of WDC and WDT, and from all of your other positions with the Company's other subsidiaries, effective Thursday, March 28, 2002. Effective such date, you will continue to be an employee of WDC, subject to the limitations below, and function as Vice President, Intellectual Property, pay grade 76, until the earlier of March 31, 2003, earlier termination by the Company as provided in this Section 1, or your death (the "Transition Period"). During the Transition Period, you will report to the Company's Chairman and Chief Executive Officer and will coordinate with the Vice President, General Counsel and Secretary, and shall perform such transitional duties as assigned from time to time, including, but not limited to, managing the Company's Intellectual Property Department (IPD) within the Legal department until the Company reassigns these responsibilities to another individual. You will also be responsible for project specific assignments as directed from time to time. It is intended that (i) from March 28, 2002 through June 30, 2002, you will work as a full-time employee with a forty (40) hour work week; (ii) from July 1, 2002, through September 30, 2002, you will work as a part-time employee with a thirty (30) hour work week; (iii) from October 1, 2002, through December 31, 2002, you will work as a part-time employee with a twenty (20) hour work week; and (iv) from January 1, 2003, through March 31, 2003, you will work as a part-time employee with a ten (10) hour work week. If you terminate the Transition Period and your employment with the Company before March 31, 2003, you are required to give at least two weeks' written notice. In such an event, your Transition Period, and any entitlement to compensation or vesting under this Agreement, shall cease on the fourteenth day following

the date on which notice is given. The Company retains the right to terminate the Transition Period at any time. Should this occur, the Transition Period end-date will be determined at the time of such an event.

2. STOCK OPTIONS AND RESTRICTED SHARES.

- (a) During the Transition Period, any stock options previously granted to you under the Company's Employee Stock Option Plan and the Company's subsidiary's Stock Incentive Plans (collectively, the "Options") will continue to vest in accordance with their terms. At the end of Transition Period, all of your Options will become fully vested, and you will have up to three (3) years following the later of March 31, 2003 or the end of the Transition Period to exercise any or all such Options or, in the event of your death, such longer period as may be provided in the Options. A stock option summary and detailed schedule setting forth these Options, their grant dates, exercise prices, and vesting schedules is being delivered to you separately and is incorporated herein by reference.
- (b) Upon your full performance through the Transition Period all remaining unvested restricted stock (the "Restricted Shares") awarded you in December 2000 will vest. Should the Company terminate the Transition Period any time prior to March 31, 2003, all unvested restricted stock awarded you in December 2000 will vest.
- (c) Notwithstanding anything to the contrary in this Agreement, if you breach any of your covenants set forth in paragraphs 9, 10, 11, or 13 hereof, (i) any unexercised Options shall be deemed immediately canceled and shall no longer be exercisable, (ii) the Restricted Shares shall be deemed immediately canceled, and (iii) WDC and/or WDT shall have the right to recover any profits realized by you as a result of the exercise of Options or the sale of Restricted Shares or of shares received pursuant to the exercise of Options during the six month period prior to the date of any such breach, as determined by the Board of Directors.

3. COMPENSATION.

- (a) During the Transition Period, you will be paid at the following base salary wage rate: (i) \$22,917 per month through June 30, 2002; (ii) \$17,188 per month from June 1, 2002, through September 30, 2002; (iii) \$11,459 per month from October 1, 2002, through December 31, 2002; and (iv) \$5,729 per month from January 1, 2003, through March 31, 2003. Should the Company terminate the Transition Period any time prior to March 31, 2003, you will be given a one-time lump sum payment as determined by calculating the time remaining from the new Transition Period end-date to March 31, 2003, per the above base salary wage rate schedule.
- (b) During the Transition Period, you will be a participant in the Company's Change of Control (COC) Severance Plan ("Severance Plan") and are eligible to participate at

the Executive Officer 16(b) level at the Company, even though you will not be a 16(b) Executive Officer. You will participate on a prorated basis as defined by your then current part-time employment status.

4. **BENEFITS.** Your eligibility and level of participation for benefits during the Transition Period will be determined by your full-time or part-time employee status and pay grade. You will receive the full \$5,000.00 Financial Planning benefit regardless of your employment status throughout the Transition Period.

Upon completion or termination of the Transition Period, March 31, 2003, or earlier, you will be given a one-time lump sum payment equal to 18 months of your then current monthly medical insurance premiums, including Executive Medical benefits, as then paid by the Company. This payment will be grossed up to cover the net cost and will not take into account any estimated escalation in future cost increases.

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

6. **VACATION.** You will continue to accrue vacation hours during the Transition Period per Company Policy as determined by your full-time or part-time employee status and number of years at the Company.

7. **INCENTIVE COMPENSATION PLAN (ICP).** You will be eligible to participate in the Company's Incentive Compensation Plan (ICP) during the Transition Period. The potential ICP percentage payout is sixty-five percent (65%) of base salary and will be prorated as determined by your full-time or part-time employee status. Should the Company terminate the Transition Period any time prior to March 31, 2003, you will be given a one-time lump sum payment as if you had been employed through March 31, 2003, taking into account your part-time employment status per the base salary wage rate schedule under "Section 3. Compensation" of this agreement, and considering any proration consequences of the then current ICP period. Further, the prorated payment will be equivalent to one hundred percent (100%) of the ICP funding for your position for the then current ICP period. Calculation for the payment will be made at the end of the then current ICP period and paid at such time as all then current employees.

8. **INDEMNIFICATION AND ASSISTANCE.**

- (a) If you are subjected to any claim or demand involving any action or inaction allegedly taken by you during the course of your employment or directorship with the Company, you will be entitled to all rights of indemnification that may then be available to other executive officers or directors of the Company, including, without limitation, insurance protection under any director and/or officer liability insurance coverage maintained by the Company or any subsidiary and any rights to

indemnification provided by applicable law or the By-laws of the Company or any subsidiary, and the Company will, and shall cause any subsidiary to, cooperate fully with you in responding to or defending against any such claim or demand.

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

9. **NON-COMPETITION.** You acknowledge that you have in your capacity as an officer and director of the Company been given access to, and possess knowledge of, valuable proprietary and confidential information of the Company. You acknowledge that it would be impossible for you to provide work, advice, consulting, or other services to a competitor of the Company, whether as an employee, independent contractor, adviser, volunteer, director or in any other capacity, for any individual, partnership, corporation, or other business entity, without using, disclosing, evaluating or relying upon the Company's proprietary and confidential information. Accordingly, you agree that during the Transition Period and for a period of one (1) year thereafter you will not directly or indirectly, whether for your own account or as an employee, director, consultant or advisor, provide services to any business or engage in any business which at the time of commencement of such services is, or is expected to be, competitive with the Company's or any of its subsidiaries' product lines or business activities, unless you obtain the prior written consent of the Company's Chief Executive Officer.
10. **NON-SOLICITATION OF EMPLOYEES.** You agree that during the Transition Period and for a period of one (1) year thereafter you will not directly or indirectly solicit any individuals to leave the Company's (or any of its subsidiaries') employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company (or any of its subsidiaries) and its current or prospective employees.
11. **NON-SOLICITATION OF BUSINESS RELATIONSHIPS.** You agree that during the Transition Period and for a period of one (1) year thereafter you will not induce or attempt to induce any customer, supplier, distributor, licensor, licensee or other business relation of the Company (or any of its subsidiaries) to cease doing business with the Company (or any of its subsidiaries) or in any way interfere with the existing business relationship between any such customer, supplier, distributor, licensor, licensee or other business relation and the Company (or any of its subsidiaries).

12. IRREPARABLE HARM. You agree that the Company would be irreparably harmed by any breach or threatened breach of the agreements in Paragraphs 9, 10 and 11 and that, therefore, the Company shall be entitled to an injunction prohibiting you from any breach or threatened breach of such agreements.
13. NON-DISPARAGEMENT. You and the Company agree that each shall not (1) directly or indirectly, make or ratify any statement, public or private, oral or written, to any person that disparages, either professionally or personally, the other party, the other party's subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, employees, stockholders, representatives, assigns, and successors, past and present, and each of them, or (2) make any statement or engage in any conduct that has the purpose or effect of disrupting the business of the other party, provided, however, that each party shall respond accurately and fully to any question, inquiry or request for information when required by legal process.
14. CONFIDENTIAL INFORMATION. When you joined the Company you signed an agreement setting forth your obligations to the Company during and after your employment. A copy of your agreement is being delivered to you separately and is incorporated herein by reference. You understand and agree that in the course of your employment with the Company, you have acquired confidential information and trade secrets concerning the Company's business and financial operating plans and budgets, its strategic business plans and those of its subsidiaries, and its personnel. You understand and agree it could be extremely damaging to the Company if you disclosed such information to a competitor or made it available to any other person or company. You understand and agree that such information has been divulged to you in confidence, and you understand and agree that you will keep such information secret and confidential unless disclosure is required by court order or otherwise by compulsion of law. In view of the nature of your employment and the information and trade secrets which you have had access to during the course of your employment, you also agree that the Company would be irreparably harmed by any breach, or threatened breach of the agreements in this Paragraph and that, therefore, the Company shall be entitled to an injunction prohibiting you from any breach or threatened breach of such agreements.
15. RELEASE OF CLAIMS. You agree that pursuant to this Agreement, the Company is providing consideration beyond the obligations owed to you by the Company or any subsidiary of the Company prior to entering this Agreement. You, on behalf of yourself and your heirs, agents, representatives, immediate family members, executors, successors, and assigns, hereby fully and forever release the Company and its agents, directors, employees, attorneys, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns from, and agree not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that you may possess against the Company arising from any omissions, acts or facts that have occurred up until and including the Effective Date including, without limitation,

- (a) Any and all claims relating to or arising from your relationship with the Company or any subsidiary of the Company, including, but not limited to, (i) your retirement from your position as Vice President, Law and Administration, and Secretary of WDC and WDT, and (ii) your assignment to the position of Vice President, Intellectual Property, during the Transition Period;
- (b) Any and all claims relating to, or arising from, your right to purchase, or actual purchase of shares of stock of the Company or any subsidiary of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;
- (c) Any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; invasion of privacy; false imprisonment; and conversion;
- (d) Any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and the California Labor Code;
- (e) Any and all claims for violation of the federal or any state constitution;
- (f) Any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and
- (g) Any and all claims for attorneys' fees and costs.

You and the Company agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations arising out of or created by this Agreement.

16. ACKNOWLEDGMENT OF WAIVER OF CLAIMS UNDER ADEA. You acknowledge that you are waiving and releasing any rights you may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. You and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. You acknowledge that the consideration given for this waiver and release Agreement is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing that (a) you should consult with an attorney prior to executing this Agreement; (b) you have seven (7) days following the execution of this Agreement by you to revoke the Agreement; and (c) this Agreement shall not be effective until the revocation period has expired. You acknowledge that under ADEA you have at least twenty-one (21) days under which to consider this agreement. After due consideration and consultation with your attorney, you have hereby knowingly and voluntarily waived this requirement. Any revocation should be in writing and delivered in accordance with the notice provisions of Paragraph 23 hereof by close of business on the seventh day from the date that you sign this Agreement.

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

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

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

18. REMEDIES IN EVENT OF FUTURE DISPUTE.

(a) Except as provided in subparagraph (b) below, in the event of any future dispute, controversy or claim between you and the Company, whether arising from or relating to this Agreement, its breach, any matter addressed by this Agreement, your employment with the Company before and through the Transition Period, or otherwise, you and the Company will first attempt to resolve the dispute through confidential non-binding mediation to be conducted in Orange County, California by



JAMS-Endispute or such other mediator as you and the Company shall mutually agree upon. If the dispute is not resolved through mediation, you and the Company will submit it to final and binding confidential arbitration to be conducted in Orange County, California by JAMS/Endispute in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, you and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. If you and the Company cannot agree on an arbitrator, the Administrator of JAMS/Endispute shall appoint an arbitrator. None of you, the Company or the arbitrator shall disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both of you and the Company, except as may be compelled by court order. Except as provided herein, the Federal Arbitration Act shall govern the interpretation and enforcement of such arbitration and all proceedings. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of California, or Federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. You and the Company intend this arbitration provision to be valid, enforceable, irrevocable and construed as broadly as possible.

- (b) In the event that a dispute arises concerning compliance with this Agreement, either you or the Company will be entitled to obtain from a court with jurisdiction over you and the Company preliminary and permanent injunctive relief to enjoin or restrict the other party from such breach or to enjoin or restrict a third party from inducing any such breach, and other appropriate relief, including money damages. By seeking any such relief, however, the moving party shall not be relieved of such party's obligation hereunder to have any remaining portion of the controversy resolved by binding confidential arbitration in accordance with subparagraph (a) above.
- (c) The Company shall pay the forum costs for any such arbitration. The prevailing party in any such arbitration or court proceeding shall be entitled to recover from the losing party such of his or its reasonable costs and expenses, including reasonable attorneys' fees, incurred in connection with the arbitration or court proceeding as would be recoverable had such party's claim been brought as a civil action in a court of competent jurisdiction.

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



25. NO ORAL MODIFICATION. This Agreement may only be modified by a writing signed by you and the Chief Executive Officer of the Company or the Chief Legal Officer of the Company.
26. GOVERNING LAW. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.
27. EFFECTIVE DATE. This Agreement is effective eight days after it has been signed by both you and the Company (the "Effective Date").
28. COUNTERPARTS. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of you and the Company.
29. VOLUNTARY EXECUTION OF AGREEMENT. This Agreement is executed by you voluntarily and without any duress or undue influence on the part or behalf of the Company, with the full intent of releasing all claims. You acknowledge that:
- (a) You have read this Agreement;
  - (b) You have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of your own choice or that you have voluntarily declined to seek such counsel;
  - (c) You understand the terms and consequences of this Agreement and of the releases it contains; and
  - (d) You are fully aware of the legal and binding effect of this Agreement.

Please indicate your agreement to the above by signing below.

Very truly yours,

WESTERN DIGITAL CORPORATION

/s/ David C. Fetah  
David C. Fetah  
Vice President Human Resources and Administration

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

/s/ Michael A. Cornelius

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Michael A. Cornelius

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Date

WESTERN DIGITAL CORPORATION  
 SUBSIDIARIES OF THE COMPANY

NAME - - - - -	STATE OR OTHER JURISDICTION OF INCORPORATION -----
Western Digital Technologies, Inc.	Delaware
Western Digital Ventures, Inc.	Delaware
Pacifica Insurance Corporation	Hawaii
Western Digital Canada Corporation	Ontario, Canada
Western Digital (Deutschland) GmbH	Germany
Western Digital (France) SARL	France
Western Digital Hong Kong Limited	Hong Kong
Western Digital Ireland, Ltd.	Cayman Islands
Western Digital (I.S.) Limited	Ireland
Western Digital Japan Ltd.	Japan
Western Digital (Malaysia) Sdn. Bhd.	Malaysia
Western Digital Netherlands B.V.	The Netherlands
Western Digital (Thailand) Company Limited	Thailand
Western Digital Korea, Ltd.	Republic of Korea
Western Digital Latin America, 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, 33-57953, 33-9853, 33-60166, 33-60168, 33-51725, 333-20359, 333-31487, 333-41423, 333-42991, 333-70413, 333-95499, 333-36332 and 333-56738) on Form S-8 of Western Digital Corporation and in the registration statements (Nos. 33-24585, 33-33365, 33-56128, 333-52463, 333-70785, 333-36350 and 333-49250) on Form S-3 of Western Digital Corporation of our report dated July 25, 2002 related to the consolidated balance sheets of Western Digital Corporation and subsidiaries as of June 28, 2002 and June 29, 2001 and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended June 28, 2002, and the related financial statement schedule, which report appears in the June 28, 2002 annual report on Form 10-K of Western Digital Corporation.

KPMG LLP

Orange County, California  
September 25, 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, in his capacity as Chief Executive Officer of Western Digital Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended June 28, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 25, 2002

/s/ Matthew E. Massengill

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Matthew E. Massengill  
Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, in his capacity as Chief Financial Officer of Western Digital Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- the Annual Report of the Company on Form 10-K for the period ended June 28, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 25, 2002

/s/ D. Scott Mercer  
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D. Scott Mercer  
Chief Financial Officer

STATEMENT UNDER OATH OF PRINCIPAL EXECUTIVE OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Matthew E. Massengill, state and attest that:

(1) To the best of my knowledge, based upon a review of the covered reports of Western Digital Corporation, and, except as corrected or supplemented in a subsequent covered report:

- no covered report contained an untrue statement of a material fact as of the end of the period covered by such report (or in the case of a report on Form 8-K or definitive proxy materials, as of the date on which it was filed); and
- no covered report omitted to state a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report (or in the case of a report on Form 8-K or definitive proxy materials, as of the date on which it was filed).

(2) I have reviewed the contents of this statement with the Company's audit committee.

(3) In this statement under oath, each of the following, if filed on or before the date of this statement, is a "covered report":

- the Annual Report of Western Digital Corporation on Form 10-K for the year ended June 28, 2002;
- all reports on Form 10-Q, all reports on Form 8-K and all definitive proxy materials of Western Digital Corporation filed with the Commission subsequent to the filing of the Annual Report on Form 10-K identified above; and
- any amendments to any of the foregoing.

By: /s/ MATTHEW E. MASSENGILL  
-----  
Name: Matthew E. Massengill  
Title: Chief Executive Officer  
September 25, 2002

Subscribed and sworn to  
before me this 25th day of  
September 2002

/s/ ROSALIA SIAKI DELANEY  
-----  
Notary Public  
April 21, 2005  
My Commission Expires \_\_\_\_\_



STATEMENT UNDER OATH OF PRINCIPAL FINANCIAL OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, D. Scott Mercer, state and attest that:

(1) To the best of my knowledge, based upon a review of the covered reports of Western Digital Corporation, and, except as corrected or supplemented in a subsequent covered report:

- no covered report contained an untrue statement of a material fact as of the end of the period covered by such report (or in the case of a report on Form 8-K or definitive proxy materials, as of the date on which it was filed); and
- no covered report omitted to state a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report (or in the case of a report on Form 8-K or definitive proxy materials, as of the date on which it was filed).

(2) I have reviewed the contents of this statement with the Company's audit committee.

(3) In this statement under oath, each of the following, if filed on or before the date of this statement, is a "covered report":

- the Annual Report of Western Digital Corporation on Form 10-K for the year ended June 28, 2002;
- all reports on Form 10-Q, all reports on Form 8-K and all definitive proxy materials of Western Digital Corporation filed with the Commission subsequent to the filing of the Annual Report on Form 10-K identified above; and
- any amendments to any of the foregoing.

By: /s/ D. SCOTT MERCER

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Name: D. Scott Mercer  
Title: Chief Financial Officer  
September 25, 2002

Subscribed and sworn to  
before me this 25th day of  
September 2002

/s/ ROSALIA SIAKI DELANEY

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Notary Public

My Commission Expires April 21, 2005 \_\_\_\_\_