

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

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 27, 1998

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

92-2647125

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

8105 IRVINE CENTER DRIVE
IRVINE, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

92618
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (949) 932-5000

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:

COMMON STOCK, \$.01 PAR VALUE
RIGHTS TO PURCHASE SERIES A JUNIOR
PARTICIPATING PREFERRED STOCK

NEW YORK STOCK EXCHANGE
NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

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

As of July 25, 1998, the aggregate market value of the voting stock of the
Registrant held by non-affiliates of the Registrant was \$1.0 billion.

As of July 25, 1998, the number of outstanding shares of Common Stock, par
value \$.01 per share, of the Registrant was 88,330,178.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference to portions
of the Registrant's Proxy Statement for the 1998 Annual Meeting of Shareholders,
which will be filed with the Securities and Exchange Commission within 120 days
after the close of the 1998 fiscal year.

WESTERN DIGITAL CORPORATION

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FOR THE FISCAL YEAR ENDED JUNE 27, 1998

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THE INFORMATION CONTAINED IN THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS REPORT, THE WORDS "ANTICIPATES," "BELIEVES," "EXPECTS," "INTENDS," "WILL," "FORECASTS," "PLANS," "FUTURE," "STRATEGY," OR WORDS OF SIMILAR IMPORT ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. OTHER STATEMENTS OF THE COMPANY'S PLANS AND OBJECTIVES MAY ALSO BE CONSIDERED TO BE FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS. 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. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY TO ADVISE INTERESTED PARTIES OF CERTAIN RISKS AND OTHER FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS AND OPERATING RESULTS, INCLUDING THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THIS REPORT, AS WELL AS THE COMPANY'S OTHER PERIODIC REPORTS ON FORMS 10-K, 10-Q AND 8-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

The Company's fiscal year is a 52 or 53-week year ending on the Saturday nearest June 30. The 1996, 1997 and 1998 fiscal years ended on June 29, June 28, and June 27, 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.

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

PART I

ITEM 1. BUSINESS

GENERAL

Western Digital Corporation (the "Company" or "Western Digital") designs, develops, manufactures and markets a broad line of rigid magnetic disk drives ("hard drives") for use in desktop personal computers ("PCs") and, since 1997, in high-performance workstations, LAN servers and multi-user ("enterprise") systems. The Company is one of the top four independent manufacturers of hard drives. It is a leading manufacturer of hard drives for desktop PCs, and it is the Company's goal to become a leading manufacturer of hard drives for enterprise systems. The Company's products currently include 3.5-inch form factor hard drives ranging in storage capacity from 2.0 gigabytes ("GB") to 10.1 GB. The Company sells its products worldwide to original equipment manufacturers ("OEMs") for inclusion in their computer systems or subsystems, and to distributors, resellers and retailers.

Strategic Business Development

In June 1998, the Company and IBM Corporation ("IBM") entered into a broad-based hard drive component supply and technology licensing agreement ("IBM Agreement"). The IBM Agreement enables the Company to incorporate IBM's industry-leading technology, designs, and hard drive components into the Company's desktop PC products while giving IBM the benefit of the Company's high-volume manufacturing

expertise and improved access to the high-volume PC market for its heads and drive components. Initially, the Company intends to combine IBM's research and development with its own technology and manufacturing capabilities to design and produce desktop PC hard drives that incorporate IBM's industry-leading giant magneto-resistive ("GMR") heads. The Company expects these products to reach the market within the first six months of calendar 1999. The IBM Agreement permits the Company to utilize other technologies developed by IBM and to market products incorporating IBM technologies, simultaneously with IBM's own use of these technologies. The Company expects that access to IBM's hard drive research and development will help the Company achieve its strategy of time-to-market and time-to-volume leadership in the desktop PC hard drive market. The IBM Agreement has a minimum three-year term and provides for extensions and licenses covering new products, subject to negotiation by the parties of mutually agreeable terms. The Company expects to purchase components for these hard drives from IBM and other suppliers. In order to take advantage of the IBM relationship while preserving the Company's own research and development capabilities, the Company's desktop PC product development efforts will follow two concurrent paths, one utilizing IBM technology, the other remaining independent of IBM technology. These product development efforts will enable the Company to offer market-leading products in the higher capacity and performance portions of the desktop market as well as in the lower capacity, value oriented portion of the desktop market. For further discussion of the IBM relationship, see Products -- Desktop PC Products, Technology and Product Development, and Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Technology License and Component Supply Transaction with IBM.

INDUSTRY

The Company designs, develops, manufactures and markets hard drives for use in the desktop PC and enterprise markets. Users of computer systems in both markets are increasingly demanding additional data storage capacity with higher performance in order to (i) use more sophisticated applications software including database management, CAD/CAM/CAE, desktop publishing, video editing and enhanced graphics applications, and (ii) operate in multi-user, multitasking, and multimedia environments.

Desktop PC Market

The desktop component of the worldwide personal computing market represented greater than 75% of all hard drives shipped by the industry in calendar 1997. Over 90% of Western Digital's hard drive unit shipments in 1998 were sold to this market. Desktop personal computers for entry level to experienced users are used in both commercial and consumer environments.

The worldwide market for desktop hard drives experienced strong growth from calendar 1993 through calendar 1997, with average unit growth of approximately 27% per year and average revenue growth of approximately 23% per year. Industry sources expect continued double digit unit growth through calendar 2000, although at lower than recent historical levels, but only single digit revenue growth through calendar 2000. Current growth estimates are lower than last year's estimates, reflecting the impact of recent industry oversupply and competition. See Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Potential Impact of Changing Market Demands.

WORLDWIDE HARD DRIVE SHIPMENTS -- DESKTOP PCS

	1993	1994	1995	1996	1997	1998E	1999E	2000E
	-----	-----	-----	-----	-----	-----	-----	-----
Units (MM).....	38.8	52.8	68.8	81.2	100.5	111	127.1	146.4
% Growth.....	N/A	36%	30%	18%	24%	10%	15%	15%
Revenues (\$Bn).....	\$ 7.5	\$ 9.8	\$12.4	\$14.4	\$ 16.9	\$17.5	\$ 18.6	\$ 20.4
% Growth.....	N/A	31%	27%	16%	18%	3%	6%	10%

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Source: International Data Corporation, August 1998.

Desktop PCs are used in a number of environments, ranging from homes to businesses and multi-user networks. Software applications are primarily word processing, spreadsheet, desktop publishing, database management, multimedia and other related applications. Desktop PCs typically utilize the Enhanced Integrated Drive Electronics ("EIDE") interface for their hard drives. The Company believes the minimum storage requirements in the past year for entry-level PCs were generally 1.6 GB to 3.2 GB of formatted capacity. The entry level capacities continue to increase. In addition, users of PCs, especially entry-level PCs, have become increasingly price sensitive. Many PC system manufacturers have recently introduced lower-cost, lower-performance systems principally for the consumer marketplace. These systems have generally been priced below \$1,000 and typically contain hard drives with lower capacity and performance. The Company currently participates in this market only to a limited extent.

The market continues to demand increased capacity per unit as users' system needs increase and technological and manufacturing advances continue to make higher capacity drives more affordable. Industry sources believe that the trend of increased storage capacity per unit shipped will continue for the foreseeable future. As such, the Company believes that time-to-market, time-to-volume and time-to-quality leadership with higher capacity drives at attractive price levels is critical to its future success in serving this market.

Enterprise Market

Enterprise systems include high performance microcomputers, technical workstations, servers and minicomputers. Applications operated by these systems are characterized by compute-intensive and data-intensive solutions, such as CAD/CAM/CAE, network management, larger database management systems, scientific applications and small to medium-sized business applications such as materials requirement planning, payroll, general ledger systems and related management reports. Data integrity and rapid access to data are paramount in this environment. Enterprise systems typically require hard drive storage capacities of 4.0 GB and greater per drive, average seek times of less than 8 msec and rotation speeds of 7,200 rpm to 10,000 rpm. Due to the leading edge characteristics required by end-users of enterprise systems, manufacturers of such systems emphasize performance as well as price as the key selling points. Enterprise systems primarily use the Small Computer System Interface ("SCSI"), although recently the Fibre Channel Arbitrated Loop ("FC-AL") interface is being pioneered by some storage subsystem providers.

The worldwide market for enterprise hard drives experienced strong growth from calendar 1993 through calendar 1997, with average unit growth of approximately 27% per year and average revenue growth of approximately 11% per year. Unit growth declined in calendar 1997 as compared to prior years and revenues decreased from 1996. Industry sources expect slower unit and revenue growth through calendar 2000, with unit growth outpacing revenue growth. Current growth estimates are lower than last year's estimates. See Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Potential Impact of Changing Market Demands.

WORLDWIDE HARD DRIVE SHIPMENTS -- ENTERPRISE

	1993	1994	1995	1996	1997	1998E	1999E	2000E
	----	----	----	-----	-----	-----	-----	-----
Units (MM).....	5.3	7.2	9.2	11.4	13.6	15.0	17.2	20.1
% Growth.....	N/A	36%	28%	24%	19%	10%	15%	16%
Revenues (\$Bn).....	\$4.8	\$5.4	\$6.6	\$ 7.3	\$ 7.2	\$7.5	\$8.2	\$ 9.1
% Growth.....	N/A	13%	22%	11%	-1%	5%	8%	11%

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Source: International Data Corporation, August 1998.

PRODUCTS

The Company's WD Caviar brand products are designed to serve the desktop PC portion of the hard drive market and its WD Enterprise brand products are designed to serve the enterprise portion.

Desktop PC Products

The WD Caviar family currently consists of 1.0" high, 3.5-inch form factor products with capacities ranging from 2.0 GB to 10.1 GB. In July 1998, the Company announced Data Lifeguard, an exclusive data reliability feature which will be introduced in all versions of the 3.4 GB per platter hard drive platform. Data Lifeguard, which the Company plans to implement in all future desktop hard drives, protects end-user data by automatically detecting, isolating, and repairing possible problem areas on the hard drive before data loss can occur. The WD Caviar products utilize the EIDE interface, providing high performance while retaining ease of use and overall low cost of connection.

The WD Caviar product line generally leverages a common architecture or "platform" for various products with different capacities to serve the differing needs of the desktop PC market. This platform strategy results in commonality of components across different products, which reduces exposure to changes in demand, facilitates inventory management and allows the Company to achieve lower costs through economies of scale purchasing. This platform strategy also enables OEM customers to leverage their qualification efforts onto successive product models.

With the advent of the IBM relationship, the Company expects to maintain two separate product development paths for the desktop market. One path will integrate IBM technology, designs, and components to create products focused on the higher end of the desktop market where capacity per system and performance are most important. The other path will continue to utilize the Company's own product platforms and technology to design desktop products independently of IBM technology. These products will be focused on those portions of the market that are most price sensitive, including the sub-\$1,000 PC market. For the majority of the desktop market, which product to produce and sell will be primarily determined by the overall cost and performance attributes of the hard drive at the particular capacity point as well as customer product transitions and qualifications.

Enterprise Products

The Company began shipping WD Enterprise products in fiscal 1997. The Company's current enterprise products offer storage capacities ranging from 2.1 GB to 9.1 GB, are 1.0" high, use the 3.5-inch form factor, feature seek times of less than 8 msec, and are targeted at workstations, servers, multi-user systems and storage subsystems. WD Enterprise products utilize the SCSI interface, (both single-ended and low voltage differential) combined with a 7200 rpm spin rate to provide the high performance required to meet the storage needs of enterprise systems.

In order to continue to grow its enterprise business, the Company must expand its product offerings to include the full range of enterprise products demanded by OEM customers. See "Technology and Product Development." The IBM Agreement is not applicable to the Company's enterprise business, so enterprise product development must be achieved through the Company's own technological developments.

TECHNOLOGY AND PRODUCT DEVELOPMENT

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

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

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

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

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

All of the Company's hard drive products employ similar technology consisting of one or more rigid disks attached to a spindle assembly which rotates the disks at a constant speed around a hub. The rate at which the disks spin affects the drive performance -- generally, the faster the disks spin the higher the performance. The disks, or media, are where the actual data is stored and retrieved. Each disk typically consists of a substrate of finely machined aluminum or glass on which is deposited a thin layer of magnetic material.

One read/write head is generally associated with each side of each disk and flies just above its surface. The heads are attached to arms that are linked together to form the head stack assembly. Guided by instructions from the internal 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. The hard drive communicates with the computer through its internal controller, which controls the drive and interfaces with the host computer. Currently, the primary interface for desktop PCs is EIDE, and for enterprise systems, SCSI. As performance improves, the hard drive will need to deliver information faster than these current interfaces can handle. Accordingly, enterprise systems have begun to incorporate the FC-AL serial interface where very high data transfer rates are important, and the desktop PC industry plans to transition to high speed serial interfaces such as 1394 to handle the higher data transfer rates. The Company is working to develop products that will support the FC-AL and 1394 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. For example, a 5 GB drive with areal density of 2.1 GB per disk will require three disks and five heads. With an areal density of 2.5 GB per disk, the same capacity can be achieved with two disks and four heads, with resulting component cost savings. The Company employs a range of advanced technologies to achieve high densities, including PRML (Partial Response Maximum Likelihood) read/write channels, advanced servo systems, and laser textured media.

Head technology is one of the variables affecting areal density. The desktop hard drive industry is completing a transition to MR head technology, which allows significantly higher storage capacities than thin film head technologies. Certain of the Company's competitors in the desktop hard drive market moved more quickly than the Company into MR head technology, achieving time-to-market leadership at higher capacity points. The Company pursued a strategy of a more deliberate transition to this new technology in order to take advantage of the hard drive industry's MR technology learning curve. In the interim, the Company continued to refine and rely upon thin film head technology for its products. The Company began volume shipments of its first MR-based hard drive products for the desktop market in the first quarter of 1998, and substantially completed its transition of desktop hard drives to MR head technology by the end of 1998. The Company continues to manufacture drives with thin film inductive heads for the lower capacity points of the enterprise market.

Constant innovations in research and development are essential to the Company's ability to compete. In particular, the Company must continue to develop hard drive products that deliver ever-increasing storage capacities. Areal density improvement is essential to this effort because increased areal density per platter helps manufacturers reduce component costs and maintain average margins. The IBM Agreement is expected to help enable the Company to provide market-leading products in the higher end of the desktop PC market, but the Company must continue its own independent research and product development efforts to compete in the enterprise and low-cost desktop PC markets.

The Company must expand its product offerings in the enterprise market to include half high (1.6" high), FC-AL interface, and 10,000 rpm drive products. The Company's current line of enterprise products consists of SCSI low profile 1" high drives with capacity points up to 9.1 GBs. While these products address approximately 70-80% of the enterprise market, that percentage is likely to decrease as demand for FC-AL interface and 10,000 rpm drive products grows. Technology available to the Company under the IBM

Agreement is limited to the desktop PC market and may not be used by the Company in its enterprise products, so the Company's own research and development is crucial to its success in the enterprise market. The Company is currently in the product design and development phase of these additional enterprise products, and expects to bring them to market during the next 18 months. If the Company is unable to build its enterprise infrastructure quickly enough to support this development schedule or encounters development delays or quality issues, it may miss the time-to-market windows on these new enterprise products.

SALES AND DISTRIBUTION

The Company sells its products globally to OEMs, OEM subcontractors ("ODMs"), distributors, value-added resellers, dealers, system integrators and retailers. Sales to OEMs accounted for 68%, 72% and 69% of consolidated revenues in fiscal years 1996, 1997 and 1998, respectively. Western Digital hard drives are either incorporated into computer systems for resale or installed into end user systems as upgrades.

The business models of computer manufacturers, which account for the majority of the Company's sales, are in the process of changing, and these changes have impacted and will continue to impact Western Digital's sales, inventory and distribution patterns. The forecast-driven, long-production-run logistics model, which most of the computer industry has used, exposes OEMs and others in the distribution chain to the risk of carrying excess or obsolete component inventories. The historical model limits the OEMs' flexibility to react to rapid technology changes and component pricing fluctuations. The Company is beginning to experience a new customer supply chain logistics model that combines "build-to-order" (OEM does not build until there is an order backlog) and "channel assembly" (OEM or component suppliers provide kits and/or parts to dealers or other assemblers who assemble the computers). The Company is adapting its logistics model to effectively align with this industry shift. Western Digital already operates within these models with two of its major OEM customers. These changes will require greater skill in managing finished goods inventory and may require more flexibility in manufacturing, both of which in turn will require even closer relationships between the Company and its OEM customers. For an additional discussion of the changes in customer models, refer to Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Customer Concentration and Changing Customer Models.

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

The Company's major OEM customers include Apple Computer, Compaq Computer, Dell Computer, Fujitsu, Gateway 2000, Hewlett-Packard, IBM, Intel, Micron Electronics and NEC. During 1996 and 1997, sales to Gateway 2000 and IBM accounted for 11% and 13% of revenues, respectively. During 1998, sales to Compaq accounted for 14% of revenues. The Company believes that its success depends on its ability to maintain and improve its strong OEM customer relationships. OEMs use the quality, storage capacity and performance characteristics of hard drives to select their hard drive providers. High volume PC OEMs typically seek to qualify three or four providers for a given hard drive product generation; enterprise OEMs typically seek to qualify two or three. To qualify consistently with OEMs, a hard drive provider must consistently execute on its product development and manufacturing processes in order to be among the first-to-market and first-to-volume production with each product generation (typically defined by form factor, areal density, capacity, interface and spindle speed). Once an OEM has chosen its qualified hard drive vendors for a given product, it generally will purchase hard drives from those vendors for the life of that product. If a qualification opportunity is missed, the Company may lose significant market share with that OEM until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume OEMs, most of which continue to consolidate their share of the PC and enterprise markets. Sales to any particular OEM may increase or decrease from year to year, and historical sales levels are not necessarily indicative of future results. For an additional discussion of customer

concentration, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Customer Concentration and Changing Customer Models.

The Company also sells its products through its sales force to selected resellers, which include major distributors, value-added resellers and mass merchandisers. The Company's major distributor customers include Decision Support Systems, Frank and Walter, Ingram Micro, Loeffelhardt, Marshall Industries, Supercom, Synnex, and Tech Data. Major mass merchandiser customers include Best Buy, Circuit City, Comp USA, Computer City, Office Depot, and Sam's Club. In accordance with standard industry practice, the Company's agreements with its resellers provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving items. These agreements may be terminated upon written notice by either party. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory.

The Company's international sales, which include sales to foreign subsidiaries of U.S. companies, represented 51%, 47% and 43% of revenues for fiscal years 1996, 1997 and 1998, 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, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Foreign Sales and Manufacturing Risks.

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

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

COMPETITION

The hard drive industry is intensely competitive. Hard drives manufactured by different competitors are highly substitutable due to the industry mandate of technical form, fit and function standards. Hard drive manufacturers compete on the basis of product quality and reliability, storage capacity, unit price, product performance, production volume capabilities, delivery capability, leadership in time-to-market, time-to-volume and time-to-quality and ease of doing business. The relative importance of these factors varies among different customer and market segments. The Company believes that it is generally competitive in all of these factors. The Company believes that in the hard drive business it cannot differentiate its products solely on attributes such as storage capacity; therefore, the Company also differentiates itself by designing and incorporating into its hard drives desirable product performance attributes and by emphasizing rapid response with its OEM and distribution customers and brand equity with its end users. These product performance attributes include seek time, data transfer rates, failure prediction, remote diagnostics and data recovery. Rapid response requires accelerated design cycles, customer delivery and production flexibility, which contribute to customer satisfaction. Brand equity is a relatively new concept for the hard drive industry. However, as data storage has become strategically critical for computer end users, the Company believes that trust in a manufacturer's reputation has become an important factor in the selection of a hard drive, particularly within such a rapidly changing technology environment.

During 1996 and 1997, the Company significantly increased its market share in the desktop hard drive market. The Company's market share eroded in 1998, primarily due to competitive conditions in the disk drive industry (with resulting cut backs in production), the timing of the Company's transition from thin film to MR head technology and certain manufacturing and performance issues encountered as the Company pushed thin film head technology to its limits. There can be no assurance that the Company will be able to recover recent market share losses or avoid further erosion of market share. Seagate, Quantum, IBM, Maxtor, Fujitsu

and Samsung are the Company's major competitors in the data storage business, and Maxtor, Fujitsu and Samsung have recently gained significant market share in the desktop market.

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

The enterprise portion of the hard drive market is more concentrated than the desktop portion, with the largest competitor, Seagate, having market share in excess of 50% until the recent entrance of Quantum and the Company as competitors. The other major competitors in this market are IBM and Fujitsu. With the addition of Quantum and the Company as competitors, price competition in the enterprise market has increased, and the Company expects that it will continue to increase. Introduction of the WD Enterprise drives into the enterprise market has been successful to date because of high product quality, competitive product performance and the Company's ability to leverage its customer and supplier relations from the desktop market; however, the Company's continued success in the enterprise storage market is heavily dependent on the successful development, timely introduction and market acceptance of new products.

For an additional discussion of competition, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Highly Competitive Industry.

SERVICE AND WARRANTY

Western Digital warrants its newly manufactured desktop products against defects in materials and workmanship for a period of three years from the date of sale. The Company's enterprise storage products have similar warranties for a period of five years from the date of sale. The Company's warranty obligation is generally limited to repair or replacement. The Company refurbishes or repairs its products at in-house service facilities located in Singapore and at a third-party return facility located in Germany. As a response to the large increase in theft of high technology products and in an effort to deter the sale of Western Digital products on the "black market," the Company does not warrant product which is stolen.

MANUFACTURING

To be competitive, Western Digital must manufacture significant volumes of high quality hard drives at low unit cost. One of the essential requirements for the Company to benefit from the IBM Agreement will be its ability to utilize its own high-volume manufacturing technologies for products based upon IBM technologies, which historically have not been developed for high volume production. The Company strives to maintain manufacturing flexibility, rapidly achieve high manufacturing yields and acquire high-quality components in required volumes at competitive prices. The critical elements of Western Digital's hard drive production are high volume, low cost assembly, and testing and establishment and maintenance of key vendor relationships in order to create "virtual vertical integration." By establishing partner relationships with many of its key strategic component suppliers, the Company believes it is able to access "best-of-class" manufacturing quality without the substantial capital investment associated with actual vertical integration. In addition, the Company believes that its virtual vertical integration model enables it to have the business flexibility needed to select the highest quality low cost suppliers as product designs and technologies evolve.

Hard drive manufacturing is a complex process involving the assembly of precision components with narrow tolerances and extensive testing to ensure reliability. The assembly process occurs in a "clean room" environment which demands skill in process engineering and efficient utilization of the "clean room" layout in order to reduce the high operating costs of this manufacturing environment. In 1998 the Company experienced decreases in manufacturing yields as a result of tighter manufacturing tolerances associated with extending the use of thin film heads in higher capacity drives as thin film technology reached its technical limits. With the completed transition to MR head technology for desktop PC hard drives, the Company has recently increased its factory yields on desktop PC hard drives to its historically high levels.

The Company produces hard drives in its three plants, two in Singapore and one in Malaysia. These plants have responsibility for all hard drives in volume production, including manufacturing, purchasing,

inventory management, assembly, testing, quality assurance and shipping of finished units. The Company purchases most of the standard mechanical components and micro controllers for its hard drives from external suppliers, although the Company has a media manufacturing facility in Northern California which supplies a significant portion of its media requirements. The Company's media manufacturing facility runs substrates, acquired from third party vendors, through various manufacturing processes of layering, coating and lubricating in order to achieve the proper degree of final surface smoothness. After conducting final quality assurance tests, the media plant delivers finished media to the Company's overseas manufacturing facilities.

The Company continually evaluates its manufacturing processes in an effort to increase productivity and decrease manufacturing costs. In order to address inventory oversupply, the Company has implemented production cutbacks in its manufacturing facilities and is now carrying excess manufacturing capacity that must be addressed through production increases or plant closure. The Company believes that more automated manufacturing processes may be required in the future in order to be competitive in the hard drive industry and evaluates which steps in the manufacturing process would benefit from automation and how automated manufacturing processes support the Company's business plans.

For an additional discussion of manufacturing, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Foreign Sales and Manufacturing Risks.

RESEARCH AND DEVELOPMENT

The Company devotes substantial resources to development of new products and improvement of existing products. The Company focuses its engineering efforts on coordinating its product design and manufacturing processes in order to bring its products to market in a cost-effective and timely manner. Research and development expenses totaled \$150.1, \$150.2 and \$203.7 million in 1996, 1997 and 1998, respectively. Research and development expenditures included \$24.5 million for microcomputer products in 1996 and approximately \$22.0 million, primarily related to the initiation of the IBM relationship, in 1998. The microcomputer businesses were sold in 1996. Recurring research and development expenditures for hard drive products increased by approximately \$24.6 million from 1996 to 1997 and by \$31.5 million from 1997 to 1998.

For a discussion of product development, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Rapid Technological Change and Product Development.

MATERIALS AND SUPPLIES

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

Unlike some of its competitors, except for a portion of its media requirements, the Company acquires all of the components for its products from third-party suppliers. In general, the Company tries to have at least two or three suppliers for each of its component requirements. For example, the Company currently buys MR heads from IBM, Read-Rite and SAE. IBM will supply all of the heads for the Company's desktop PC hard drives incorporating IBM technology under the IBM Agreement. Media requirements not fulfilled internally are purchased through several outside vendors including Komag, Trace Storage, HMT Technology and Showa Denko. The Company purchases proprietary finished integrated circuits, which are designed by the Company, from SGS-Thomson and other externally designed integrated circuits from other sources.

For an additional discussion of component supplies, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Dependence on Suppliers of Components.

BACKLOG

At August 7, 1998, the Company's backlog, consisting of orders scheduled for delivery within the next twelve months, was approximately \$270 million, compared with a backlog at August 15, 1997 of approxi-

mately \$620 million. 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 an OEM's first purchase order for a product. OEM purchase orders typically may be canceled with relatively short notice to the Company, subject to payment of certain costs, or modified by customers to provide for delivery at a later date. Also, certain of the Company's sales to OEMs are made under "just-in-time" delivery contracts that do not generally require firm order commitments by the customer until the time of sale. Therefore, backlog information as of the end of a particular period is not necessarily indicative of future levels of the Company's revenue and profit and may not be comparable to earlier periods.

PATENTS, LICENSES AND PROPRIETARY INFORMATION

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

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

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

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

For additional discussion of intellectual property, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Intellectual Property.

ENVIRONMENTAL REGULATION

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

EMPLOYEES

As of July 25, 1998, the Company employed a total of 13,045 full-time employees worldwide. This represents a reduction in headcount of approximately 20% since November 1997, as the Company responded to the industry downturn and its decrease in sales. The Company employed 2,757 employees in the United States, of whom 1,267, 531 and 959 were engaged in engineering, sales and administration, and manufacturing, respectively. The Company employed 4,816 employees at its hard drive manufacturing facilities in Malaysia, 5,314 at its hard drive manufacturing facilities in Singapore, and 158 at its international sales offices.

Many of the Company's employees are highly skilled, and the Company's continued success depends in part upon its ability to attract and retain such employees. In an effort to attract and retain such employees, the Company continues to offer employee benefit programs which it believes are at least equivalent to those offered by its competitors. Despite these programs, the Company has, along with most of its competitors,

experienced difficulty at times in hiring and retaining certain skilled personnel. In critical areas, the Company has utilized consultants and contract personnel to fill these needs until full-time employees could be recruited. The Company has never experienced a work stoppage, none of its domestic employees are represented by a labor organization, and the Company considers its employee relations to be good.

ITEM 2. PROPERTIES

The Company's headquarters, located on leased property in Irvine, California (expires in June, 2000), house management, research and development, administrative and sales personnel. The Company also leases facilities in San Jose, California, and Rochester, Minnesota for research and development activities. The Company operates two hard drive manufacturing facilities in Singapore. One Singapore facility is leased and is used to produce desktop hard drives. The other Singapore facility is owned and is used to produce enterprise hard drives. Western Digital also owns a hard drive manufacturing facility in Kuala Lumpur, Malaysia which provides the Company with additional capacity to produce desktop hard drives. The Company's media processing facilities are located on leased property in Santa Clara, California. The leases referenced above expire at various times beginning in 1998 through 2015. The Company owns approximately 34 acres of land in Irvine, California on which it intends to construct a new corporate headquarters within the next two years.

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

ITEM 3. LEGAL PROCEEDINGS

The Company was sued by Amstrad PLC ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleges that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of \$186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for \$3.0 million in actual damages in addition to exemplary damages in an unspecified amount. The Company believes that it has meritorious defenses to Amstrad's claims and intends to vigorously defend itself against the Amstrad claims and to press its claims against Amstrad in this action. The case is scheduled for trial in September 1998. Although the Company believes that the final disposition of this matter will not have an adverse effect on the Company's financial condition or operating results, if Amstrad were to prevail on its claims, a judgment for a material amount could be awarded against the Company.

On June 10, 1994, Papst Licensing ("Papst") brought suit against the Company in the United States District Court for the Central District of California alleging infringement by Western Digital of five hard drive motor patents owned by Papst. The patents relate to disk drive motors that the Company purchases from motor vendors. On December 1, 1994, Papst dismissed its case without prejudice but has notified the Company that it intends to reinstate the suit if the Company does not agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. The Company does not believe that the outcome of this matter will have an adverse effect on its financial condition or operating results.

Between December 12, 1997 and February 24, 1998, eight class action suits were filed against the Company and certain of its officers and directors. The plaintiffs in the actions purport to represent purchasers of the Company's common stock during various periods ranging from July 25, 1996, through December 2, 1997 (collectively, the "Class Periods"). The complaints allege that the Company issued false and misleading statements during the respective Class Periods concerning the outlook for the Company's operations and earnings and that the Company issued false and misleading financial statements in fiscal years 1996 and 1997 by improperly deferring the write-down of obsolete inventory. The complaints seek compensatory damages for the purported class members in an unspecified amount. The Court ordered the cases consolidated and designated the plaintiffs in the first case filed as the lead plaintiffs and the law firm representing such plaintiffs

as lead counsel. The Company filed a motion to dismiss the amended consolidated complaint which was granted by the Court with prejudice.

The Company is also subject to other legal proceedings and claims which arise in the ordinary course of business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have an adverse effect on its financial condition or operating results.

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 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of all the executive officers of the Company as of August 20, 1998 are listed below, followed by a brief account of their business experience during the past five years. Executive officers are normally appointed annually by the Board of Directors at a meeting of the directors immediately following the Annual Meeting of Shareholders. There are no family relationships among these officers nor any arrangements or understandings between any officer and any other person pursuant to which an officer was selected.

NAME ----	AGE ---	POSITION -----
Charles A. Haggerty.....	56	Chairman of the Board, President and Chief Executive Officer
Matthew E. Massengill.....	37	Executive Vice President and General Manager, Personal Storage Division
Marc H. Nussbaum.....	42	Senior Vice President, Advanced Development & Chief Technical Officer
David W. Schafer.....	45	Senior Vice President, Worldwide Sales
Russell R. Stern.....	42	Senior Vice President, Engineering, Personal Storage Division
Duston M. Williams.....	40	Senior Vice President and Chief Financial Officer
Michael A. Cornelius.....	56	Vice President, Law and Administration, and Secretary
Steven M. Slavin.....	47	Vice President, Taxes and Treasurer
Jack Van Berkel.....	38	Vice President, Human Resources

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

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

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

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

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 ("NYSE") under the symbol "WDC." The approximate number of holders of record of common stock of the Company as of July 25, 1998 was 3,758.

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

The high and low sales prices (retroactively adjusted for the two-for-one stock split effected as a stock dividend in June 1997) of the Company's common stock, as reported by the NYSE, for each quarter of 1997 and 1998 are as follows:

	FIRST -----	SECOND -----	THIRD -----	FOURTH -----
1997				
High.....	\$20 5/8	\$31 11/16	\$38 5/8	\$37 1/8
Low.....	9 15/16	19 3/16	26 1/4	26 5/16
1998				
High.....	\$54 3/4	\$49 9/16	\$20 7/16	\$22 1/16
Low.....	30 5/8	14 1/2	14 3/4	10 1/4

ITEM 6. SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS

	YEARS ENDED				
	JUNE 30, 1994	JULY 1, 1995	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998

	(IN MILLIONS, EXCEPT PER SHARE AND EMPLOYEE DATA)				
Revenues, net.....	\$1,539.7	\$2,130.9	\$2,865.2	\$4,177.9	\$3,541.5
Gross profit.....	317.9	394.1	382.1	650.3	100.1
Operating income (loss).....	91.9	133.0	77.5	301.6	(295.8)
Net income (loss).....	\$ 73.1	\$ 123.3	\$ 96.9	\$ 267.6	\$ (290.2)
Earnings (loss) per share:					
Basic.....	\$.93	\$ 1.34	\$ 1.05	\$ 3.07	\$ (3.32)
Diluted.....	\$.86	\$ 1.23	\$ 1.01	\$ 2.86	\$ (3.32)
Working capital.....	\$ 261.7	\$ 360.5	\$ 280.2	\$ 364.2	\$ 463.5
Total assets.....	\$ 640.5	\$ 858.8	\$ 984.1	\$1,307.1	\$1,442.7
Total long-term debt.....	\$ 58.6	\$ --	\$ --	\$ --	\$ 519.2
Shareholders' equity.....	\$ 288.2	\$ 473.4	\$ 453.9	\$ 620.0	\$ 317.8
Number of employees.....	6,593	7,647	9,628	13,384	13,286

No cash dividends were paid for the years presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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

The Company's operating results during 1998 deteriorated primarily as a result of increased competition, particularly in the desktop storage market, and operating issues resulting from an accelerated transition from thin film recording head technology to MR head technology. Although the business environment was challenging in 1998, the Company continued to invest significantly in its desktop and enterprise hard drive businesses.

In June 1998, the Company entered into a broad-based hard drive component supply and technology licensing agreement with IBM ("IBM Agreement") for its desktop PC products. As a result of the IBM Agreement, the Company expects to begin shipping desktop hard drives featuring GMR heads in the first six months of calendar 1999. The Company anticipates that these hard drives will augment Western Digital's product offerings thereby improving its competitiveness in terms of time-to-market, time-to-capacity and cost.

The Company has invested heavily in its enterprise storage business over the past few years and has built its share of this market to approximately 8% as of the end of 1998. The Company is planning a significant increase in its research and development spending during 1999 to transform Western Digital into a full-line supplier of enterprise hard drives by the middle of 2000. The Company expects that having a full product line will help attract new OEM customers, thereby increasing sales and operating profit.

RESULTS OF OPERATIONS

Comparison of 1996, 1997 and 1998

In 1996, the Company reported net income of \$96.9 million compared with net income of \$267.6 million for 1997 and a net loss of \$290.2 million for 1998. The increase in operating income from 1996 to 1997 resulted from a 46% increase in revenues, a two percentage point increase in gross margin, and a two percentage point decline in operating expenses as a percentage of revenues. The deterioration in operating performance from 1997 to 1998 occurred because of a 15% decrease in revenues, a 13 percentage point decline in gross profit margin and a three percentage point increase in operating expenses as a percentage of revenues. Net income for 1996 included a one-time, pre-tax gain of \$17.3 million on the sale of the Company's multimedia products business. The net loss in 1998 included special charges of \$148 million recorded in the second quarter, primarily to cost of sales, and \$22 million of costs recorded in the fourth quarter to research and development ("R&D") principally related to the start-up of the IBM Agreement. The \$148 million of special charges include estimated component cancellation charges, inventory and other asset write-downs, costs incurred on terminated mobile PC engineering programs, and other estimated incremental costs related to the production, sale, and accelerated wind-down of thin film products and ramp-up of products with MR heads.

Sales of hard drive products were \$2.8, \$4.2 and \$3.5 billion in 1996, 1997 and 1998, respectively. Beginning in 1997, 100% of the Company's revenues were generated from the sale of hard drive products. Unit shipments increased 51% from 1996 to 1997, but declining average selling prices ("ASP") reduced the 1996 to 1997 hard drive revenue growth rate to 49%. The higher unit volume in 1997 primarily resulted from increased business with OEMs and, to a lesser extent, incremental unit shipments to resellers. Also in 1997, the Company began shipping products from its enterprise storage product line. During 1998, unit shipments decreased 6% which, combined with reductions in the ASPs of hard drive products due to an intensely competitive hard drive business environment, resulted in a 15% decline in hard drive revenues from 1997.

Gross profit margins were as follows:

	1996	1997	1998
	----	----	----
Hard drive products.....	12.8%	15.6%	2.8%
Microcomputer products.....	36.8%	--%	--%
Overall.....	13.3%	15.6%	2.8%

The increase in gross profit margin for hard drive products in 1997 was primarily the result of a change in sales mix to a greater percentage of higher capacity desktop storage products combined with initial shipments of enterprise storage products. The Company began shipping products from its enterprise storage product line in 1997. These products have a higher average gross margin percentage than the Company's desktop storage products. Also contributing to the improvement in gross profit margin for hard drive products were year-over-year reductions in the average cost of the Company's desktop storage products.

The reduction in gross profit margin in 1998 was primarily related to unusually severe competitive pricing pressures experienced in the desktop storage market during the last three quarters of 1998. The Company also experienced higher assembly costs associated with extending the life of thin film head technology in desktop storage products and the accelerated transition to hard drives utilizing MR heads. The \$148 million of special charges recorded in the second quarter of 1998 also contributed to the decline in gross profit margin. Partially offsetting these amounts were incremental sales of the Company's higher margin enterprise storage products.

R&D expense was \$150.1 million, or 5.2% of revenues, \$150.2 million, or 3.6% of revenues, and \$203.7 million, or 5.8% of revenues in 1996, 1997 and 1998, respectively. R&D expense remained consistent from 1996 to 1997 as higher expenditures incurred to develop desktop, enterprise and mobile hard drive products were offset by the elimination of expenditures related to the MCP businesses which were sold in 1996. R&D expenses declined as a percentage of revenues primarily as a result of the higher revenue base in 1997 as compared to 1996. The increase in absolute dollars spent from 1997 to 1998 was primarily associated with higher expenditures to support the development of hard drives for the desktop and enterprise storage markets and certain costs recorded in the fourth quarter related principally to the start-up of the IBM Agreement.

Selling, general and administrative expenses ("SG&A") were \$154.5 million, or 5.4% of revenues, \$198.5 million, or 4.8% of revenues and \$192.1 million, or 5.4% of revenues, in 1996, 1997 and 1998, respectively. The increase in the absolute dollars of SG&A expenses from 1996 to 1997 was primarily due to incremental selling, marketing and other related expenses in support of the higher revenue levels and higher expenditures for the Company's pay-for-performance and profit sharing plans. The decline in SG&A expenses as a percentage of revenues in 1997 was primarily due to the higher revenue base in 1997. The decrease in SG&A expense from 1997 to 1998 was primarily the result of lower expenses for the Company's pay-for-performance and profit sharing plans, partially offset by higher expenses associated with implementing the Company's new computer information systems.

Net interest income was \$13.1, \$13.2 and \$3.8 million in 1996, 1997 and 1998, respectively. The decline in net interest income from 1997 to 1998 was primarily attributable to interest expense incurred on the Company's recently funded long-term debt consisting of a \$50.0 million term loan, which is part of the Company's revolving credit and term loan facility ("Senior Bank Facility"), and accrual of original issue discount on the Company's convertible subordinated debentures due 2018 ("Debentures"). No debt was outstanding during either of the comparable periods. Partially offsetting this decrease was incremental interest income earned on the cash and cash equivalents balance in 1998, which was higher than historical levels due to the proceeds from the sale of the Debentures and borrowings under the Senior Bank Facility.

The Company's effective tax rate for 1996 and 1997 resulted primarily from the earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with United States statutory rates and changes in the deferred tax asset valuation allowance (see Note 5 of Notes to Consolidated Financial Statements). The increase in the tax rate from 1996 to 1997 reflects a change in earnings among the Company's subsidiaries operating in various tax jurisdictions. The income tax benefit recorded in 1998

represents the expected benefit of loss carrybacks, partially offset by provisions for income taxes recorded in certain jurisdictions that had positive earnings.

ECONOMY OF ASIAN COUNTRIES

Several Asian countries recently have had large economic downturns and significant declines in the value of their currencies relative to the U.S. Dollar. The "Asian crisis" has reduced the market for the Company's products and may have helped some Asian hard drive companies become more competitive since they can pay some of their costs in devalued currency while receiving their revenues in U.S. Dollars. The Company is unable to predict what effect, if any, the factors associated with the Asian crisis will have on foreign economic conditions, the Company's customers or vendors or the Company's ability to compete in Asian markets.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 130 and 131, "Reporting Comprehensive Income" ("SFAS 130") and "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), respectively (collectively, the "Statements"). The Statements are effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for reporting of comprehensive income and its components in annual and interim financial statements. SFAS 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS 130 and SFAS 131, respectively. Application of the Statements' requirements is not expected to have a material impact on the Company's consolidated financial position, results of operations or earnings (loss) per share data as currently reported.

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

YEAR 2000

The Company has considered the impact of Year 2000 issues on its products, computer systems and applications and has developed a remediation process. Remediation activities are underway, and the Company expects compliance and testing to be completed by June 1999. Expenditures related to the Year 2000 project, which include normal replacement of existing capital assets were approximately \$5.0 million in 1998 and are expected to amount to approximately \$35.0 million in total. For an additional discussion of Year 2000 issues, see Part II, Item 7, Risk Factors Affecting the Company and/or the Hard Drive Industry -- Year 2000 Issue.

LIQUIDITY AND CAPITAL RESOURCES

At June 27, 1998, the Company had \$459.8 million of cash and cash equivalents as compared with \$208.3 million at June 28, 1997. Net cash used for operating activities was \$39.0 million during 1998. Cash flows resulting from a decrease in accounts receivable and lower inventories were more than offset by cash used to fund a decrease in current liabilities and the net loss (net of non-cash charges). Other significant uses of cash during 1998 were capital expenditures of \$198.6 million and payments of \$35.8 million to settle certain put option arrangements entered into in connection with the Company's open market stock repurchase program. The capital expenditures were incurred primarily in connection with the transition to desktop and enterprise hard drives featuring MR head technology, normal replacement of existing assets, acquisition and development of the Company's new computer information systems and acquisition of land for the Company's new headquarters. Partially offsetting these uses of cash was \$491.4 million received in connection with the

issuance of the Debentures and borrowings under the Senior Bank Facility. In addition, \$23.8 million was received in connection with stock option exercises and Employee Stock Purchase Plan ("ESPP") purchases. The Company anticipates that capital expenditures in 1999 will total approximately \$135 million and will relate to retooling of the Company's hard drive assembly lines in order to accommodate new technologies and normal replacement of existing assets.

The Senior Bank Facility pursuant to which BankBoston, N.A. and other lending institutions are providing a \$200 million revolving credit line and a \$50 million term loan, both of which expire in January 2001, is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility, as amended in February and June 1998, requires the Company to maintain certain financial ratios, prohibits the payment of dividends and contains a number of other restrictive covenants. As of the date hereof, the \$50 million term loan was funded, but there were no borrowings under the revolving credit line.

On February 18, 1998, the Company received gross proceeds of \$460.1 million (before the Initial Purchasers' discount) from a private offering of 5.25% zero coupon convertible subordinated debentures due in 2018. The principal amount at maturity of the Debentures is \$1.3 billion. The Debentures are subordinated to all senior debt; are convertible into 19.4 million shares of the Company's common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption.

On December 29, 1997, the Company purchased approximately 34 acres of land in Irvine, California for approximately \$22 million. The Company intends to negotiate lease financing for construction of a new corporate headquarters on this site. The new headquarters facility is expected to lower the Company's occupancy costs. However, there can be no assurance that the Company will be successful in entering into a leasing arrangement for this property on terms that will be satisfactory to the Company and other alternatives available to the Company upon expiration of its current headquarters lease could be more costly.

The Company believes its current cash balances, combined with cash flow from operations, will be sufficient to meet its working capital needs at least through 1999. The Company has viewed the revolving credit line portion of its Senior Bank Facility as a source of cash to meet its longer term working capital requirements, if needed. The Company's recent financial results and current condition have reduced availability under the Senior Bank Facility, and it is uncertain, based on information currently available to the Company, whether the Company will be in compliance with certain financial covenants under the Senior Bank Facility at the end of its first quarter of 1999. Therefore, the Company has been negotiating a new senior credit facility to replace the Senior Bank Facility and has signed a non-binding term sheet. The new credit facility would have more flexible borrowing requirements and covenants. There can be no assurance that the Company will successfully complete the negotiations required to obtain this new credit facility or that the Senior Bank Facility will continue to be available, and the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Risk Factors Affecting the Company and/or the Hard Drive Industry."

RISK FACTORS AFFECTING THE COMPANY AND/OR THE HARD DRIVE INDUSTRY

Highly Competitive Industry

The desktop portion of the hard drive industry consists of many competitors of various sizes and financial resources and is intensely competitive. The desktop hard drive industry is currently experiencing a period of sustained oversupply and unusually severe pricing pressures that the Company expects to continue for at least the first six months of 1999, although the current conditions in this market make it difficult to forecast the timing of any change in competitive conditions.

During 1996 and 1997, the Company significantly increased its market share in the desktop hard drive market, but the Company's market share eroded in 1998, primarily due to competitive conditions in the hard drive industry (with resulting cutbacks in production), the timing of the Company's transition from thin film to magneto-resistive ("MR") head technology and certain manufacturing and performance issues encountered as the Company pushed thin film head technology to its limits. There can be no assurance that the Company will be able to recover recent market share losses or avoid further erosion of market share. Seagate, Quantum, IBM, Maxtor, Fujitsu and Samsung are the Company's major competitors in the data storage business, and Maxtor, Fujitsu and Samsung have recently gained significant market share in the desktop market. The current intensely competitive conditions in this market make it difficult to forecast near-term operating results. This competitive environment has adversely affected the Company's operating results for 1998, and the Company expects these conditions to continue for at least the first half of 1999.

The enterprise portion of the hard drive industry is more concentrated than the desktop portion, with the largest competitor, Seagate, having market share in excess of 50% until the recent entrance of Quantum and the Company as competitors. The other major competitors in this market are IBM and Fujitsu. The number of competitors in this market has increased with the recent entry of Quantum and the Company, and competition may continue to grow if Maxtor enters the enterprise market. With more competitors, price competition in the enterprise market is greater than in the past, and the Company expects that price competition will continue to increase, with resulting pressure on margins.

In general, the unit price for a given product in both the desktop and enterprise markets decreases over time as increases in industry supply and cost reductions occur and as technological advancements are achieved. Cost reductions result primarily from volume efficiencies, component cost reductions, manufacturing experience and design enhancements that are generally realized over the life of a product. Competitive pressures and customer expectations compel manufacturers to pass these cost reductions along as reductions in selling prices. The rate of general price decline accelerates when some competitors lower prices to absorb excess capacity, liquidate excess inventories or attempt to gain market share. Competition and continuing price erosion can adversely affect the Company's financial condition or operating results in any given quarter. Often, such adverse effects cannot be anticipated until late in the quarter, as happened during 1998.

Rapid Technological Change and Product Development

The demands of hard drive customers for greater storage capacity and higher performance have led to short product life cycles, which require the Company to constantly develop and introduce new drive products on a cost-effective and timely basis. The Company's ability to fund research and development to support rapid technological change depends upon its operating results and cash flows; reductions in such funding could impair the Company's ability to innovate and compete. Because of the Company's anticipated reliance upon IBM technology for new high-end desktop PC products, the Company will be subject to risks associated with IBM's research and development as well as its own. See "Technology License and Component Supply Transaction with IBM."

MR heads, which enable higher capacity per hard drive than conventional thin film or MIG inductive heads, became the leading recording head technology during 1998. Several of the Company's major competitors incorporated MR head technology into their products much earlier than the Company and, with higher capacity drives using MR heads, some of the Company's competitors achieved time-to-market leadership with certain MR products. The Company substantially completed its transition of desktop hard drives to MR head technology by the end of 1998. The Company continues to manufacture hard drives with thin film inductive heads for the lower capacity points of the enterprise market. Failure of the Company to regain time-to-market leadership with products incorporating MR head technology in a timely manner, to qualify these products with key OEM customers, or to produce these products in sufficient volume could cause further erosion of the Company's market share and have an adverse effect on the Company's financial condition or operating results.

MR head technology has inherent areal density advantages which have resulted in an increase in the slope of the areal density curve, i.e., areal density is increasing at a more rapid rate than before. Because of the

component cost savings inherent in increases in areal density, this more rapid increase has shortened product life cycles and enhanced the importance of time-to-market leadership. Use of GMR heads will result in a further increase in areal density, and although the integration of GMR heads in hard drives is not expected to be as complex or difficult as the transition from thin film to MR technology, the Company needs to achieve time-to-market leadership with hard drives incorporating GMR heads. Failure to achieve time-to-market leadership could have an adverse effect on the Company's financial condition or operating results.

Due to short product life cycles, the Company regularly engages in new product qualification with its customers. This customer qualification process is usually complicated, difficult and lengthy. Any failure or delay by the Company in qualifying new products with customers could adversely affect the Company's financial condition or operating results.

The Company's continued success in the enterprise hard drive market is heavily dependent on the successful development, timely introduction and market acceptance of new products, and failure to achieve such success could adversely affect the Company's financial condition or operating results. The Company's current line of enterprise products is based on a SCSI low profile (1" high) drive with capacity points up to 9.1 GBs. These products serve approximately 70-80% of the existing enterprise market; however, the Company must expand its product line to include designs for half high (1.6" high) drives, FC-AL interface and 10,000 rpm in order to become a full-line supplier in the enterprise market. Development, design, manufacturing and acceptance of these new enterprise products are subject to the various business risks discussed herein which are applicable to all hard drive product development. Additionally, the Company is facing staffing challenges, since additional engineers must be hired to complete the design and development process for the expansion of the enterprise product line. Competition worldwide for such personnel is intense, and there can be no assurance the Company will be able to attract and retain such additional personnel. The Company is currently in the product design and development phase of these additional enterprise products and expects to bring them to market during the next 18 months. If the Company is unable to build its enterprise infrastructure quickly enough to support this development schedule or encounters development delays or quality issues, it may miss the time-to-market windows on these new enterprise products, which could have an adverse effect on the Company's financial condition or operating results.

The Company experiences fluctuations in manufacturing yields that can materially affect the Company's operations, particularly in the start-up phase of new products or new manufacturing processes, and also at the end of a technology's life cycle, when refinements designed to reach the product's technical limits can result in tighter manufacturing tolerances. With the continued pressures to shorten the time required to introduce new products, the Company must accelerate production learning curves to shorten the time to achieve acceptable manufacturing yields and costs. The Company's future is therefore dependent upon its ability to develop new products, qualify these new products with its customers, successfully introduce these products to the market on a timely basis and commence volume production to meet customer demands. If not carefully planned and executed, the transition to new products may adversely affect sales of existing products and increase risk of inventory obsolescence. A delay in the introduction or production of more cost-effective and/or more advanced products also can result in lower sales and lower gross margins. Because of rapid technological changes, the Company anticipates that sales of older products will decline as in the past and that sales of new products will continue to account for a significant portion of its sales in the future. Failure of the Company to execute its strategy of achieving time-to-market in sufficient volume with new products, or any delay in the introduction of advanced and cost-effective products, could result in significantly lower revenue and gross margins. Some of these factors have adversely affected the Company in connection with the maturation of and transition from thin film recording head technology to MR head technology. Inability to introduce or achieve volume production of competitive products on a timely basis has in the past and could in the future adversely affect the Company's financial condition or operating results.

Advances in magnetic, optical or other technologies, or the development of entirely new technologies, could result in the creation of competitive products that have better performance and/or lower prices than the Company's products. Companies such as TeraStor and Seagate are currently developing optically-assisted recording technologies. The initial products from such companies are expected to be high capacity and high price. Based on preliminary announcements, these products also appear to have lower performance attributes

than the current enterprise storage products. The optically-assisted recording approaches used by these two companies are different at this time and have created some short-term confusion in the industry. Accordingly, the Company's strategy is to view optically-assisted recording as a potentially valid solution at some point in time, but to assume that the hard drive technologies currently in use will serve the Company for the foreseeable future. However, if the Company's assumption proves to be wrong, the Company could be late in its integration of optically-assisted recording technology, which could have an adverse effect on the Company's financial condition or operating results.

Technology License and Component Supply Transaction with IBM

Implementation of the IBM Agreement presents several significant challenges to the Company including the need to adapt IBM's product designs to the high volume, fast cycle time production environment that is necessary to achieve the cost efficiencies required to compete in the high-volume desktop market. While the Company intends to take advantage of IBM's technological leadership to develop market leading hard drive products, the availability of IBM technology does not assure the Company's success. Successful development of hard drive products utilizing IBM technology will require the Company's engineers to integrate IBM technology and product designs into Western Digital products while continuing to conduct significant independent research and development activities. The IBM Agreement does not alleviate the research and development risk that has been inherent in the Company's business, and there can be no assurance that the Company will be successful in translating IBM technologies or components into successful products.

Additionally, since IBM will be the sole supplier of the head component for these desktop drives, the Company's business and financial results would be adversely affected if the heads manufactured by IBM fail to satisfy the Company's quality requirements or if IBM is unable to meet the Company's volume or delivery requirements. Western Digital believes that IBM's current and planned manufacturing capacity should be adequate to meet the Company's forecasted requirements. However, the future growth of sales of hard drives with IBM technology is dependent upon, among other things, IBM continuing to devote substantial financial resources to property, plant, equipment and working capital to support the manufacture of the components, as to which there can be no assurance.

The Company entered into the IBM Agreement with the expectation that IBM will continue to lead the hard drive industry in areal density and performance and that the Company will be able to translate that leadership into time-to-market and time-to-volume leadership in the desktop PC hard drive market. If IBM does not maintain its areal density leadership, the Company may not be able to realize the competitive cost advantages in the high volume portion of the market that result from such leadership.

Although the IBM Agreement contains certain restrictions on IBM's ability to license the technology covered by it to third parties, the IBM Agreement is not exclusive, and other hard drive manufacturers may also have access to heads produced by IBM and possibly to IBM designs and technology. The IBM Agreement has a minimum three-year term with the parties having the right to agree to continue the relationship for future products subject to mutually acceptable terms and conditions. If a party breaches the agreement or becomes subject to bankruptcy or similar proceedings, the other party may terminate the IBM Agreement. The IBM Agreement may also be terminated by a party upon a change of control of the other party, subject to certain conditions.

Fluctuating Product Demand

Demand for the Company's hard drive products depends on the demand for the computer systems manufactured by its customers and on storage upgrades to computer systems, which in turn are affected by computer system product cycles, end user demand for increased storage capacity and prevailing economic conditions. Although market research indicates that total computer system unit shipments are expected to continue to grow for the next several years, demand may fluctuate significantly from period to period. Such fluctuations have in the past and may in the future result in deferral or cancellation of orders for the Company's products, which could have an adverse effect on the Company's financial condition or operating results.

The hard drive industry has also experienced seasonal fluctuations in demand. The Company has historically experienced relatively flat demand in the first quarter of the fiscal year as compared to the fourth quarter, while demand in the second quarter has historically been much higher than in the first quarter. Additionally, product shipments tend to be greatest in the third month of each quarter. Any failure by the Company to accurately match its product build plans to customer demand for any particular period could adversely affect the Company's operating results for that period, as happened during 1998.

Customer Concentration and Changing Customer Models

High volume customers for hard drives are concentrated among a small number of OEMs, distributors and retailers. Although the Company believes its relationships with key customers such as these are generally good, the concentration of sales to a relatively small number of major customers represents a business risk that loss of one or more accounts could adversely affect the Company's financial condition or operating results. Customer concentration is especially significant for the Company's enterprise business. The Company's customers are generally not obligated to purchase any minimum volume and are generally able to terminate their relationship with the Company at will. The Company has experienced reductions in its business, with resulting loss of revenue, with certain OEM customers largely as a result of delays and difficulties encountered in the Company's transition to MR head technology. If any such changes in purchase volume or customer relationships continue to result in decreased demand for the Company's drives, whether by loss of or delays in orders, the Company's financial condition or operating results could be adversely affected.

The hard drive industry is experiencing changes in its OEM customer ordering models. The trend among computer manufacturers using the "build-to-order" model is to utilize a "just-in-time" ("JIT") inventory management requirements model. As a result, Western Digital's customers are holding smaller inventories of components such as hard drives. This JIT ordering requires the Company to maintain a certain base stock of product in a location adjacent to its customers' manufacturing facilities. JIT ordering complicates the Company's inventory management strategies and makes it more difficult to match manufacturing plans with projected customer demand. The Company's failure to manage its inventory in response to JIT demands could have an adverse effect on its operating results.

Large OEMs are also considering or have implemented a "channel assembly" model in which the OEM ships a minimal computer system to the dealer or other assembler, and component suppliers such as hard drive manufacturers are requested to ship parts directly to the assembler for installation at its location. With this model, fragmentation of manufacturing facilities exposes the Company to some risk of inventory mismanagement by both the OEMs and the assemblers. The shift requires effective inventory management by the Company, and any increase in the number of "ship to locations" may increase freight costs and the number of accounts to be managed. Additionally, if the assemblers are not properly trained in manufacturing processes, it could also increase the number of product returns resulting from damage during assembly or improper installation. This model requires proper alignment between the OEM and the Company and requires the Company to retain more of its product in inventory. The Company is therefore exposed to increased risk of inventory obsolescence with the channel assembly model as well as the JIT model. The Company's OEM customer relationships have traditionally been strong, but a material adverse change in an OEM relationship could adversely affect demand for the Company's products, especially with the impact of these new models.

Dependence on Suppliers of Components

The Company is dependent on qualified suppliers for components, including recording heads, head stack assemblies, media and integrated circuits. A number of the components used by the Company are available from a single or limited number of outside suppliers. Some of these materials may periodically be in short supply, and the Company has, on occasion, experienced temporary delays or increased costs in obtaining these materials. As a result, the Company must allow for significant lead times when procuring certain materials and supplies. In addition, cancellation of orders for components due to cut-backs in production precipitated by

market oversupply or transition to new products or technologies can result in payment of significant cancellation charges to suppliers. Because the Company is less vertically integrated than its competitors, an extended shortage of required materials and supplies or the failure of key suppliers to meet the Company's quality, yield or production requirements could affect the Company more severely than competitors.

The Company's product development efforts must include components designed by and purchased from third party vendors since the Company does not manufacture the components, except for a significant portion of its media, for its hard drives. The success of the Company's products depends in part on the Company's ability to acquire and integrate components with leading-edge technology. The successful integration of third party components depends upon the timely availability and quality of components, the ability to integrate the different products from several vendors and management of scheduling and delivery. The Company's success depends on its continued good relationships with key component suppliers, its identification of the most advantageous suppliers for specific products, and its ability to manage the various complexities involved in the integration of components in product development. Additionally, difficult industry conditions may severely impact the Company's suppliers. Since the Company is not vertically integrated, it may be more adversely affected by the ability of its vendors to survive or adjust to market conditions. These risks may be particularly acute for products incorporating IBM technology because the Company is required to use IBM-supplied heads with those products. See "Technology License and Component Supply Agreement with IBM."

Intellectual Property

The hard drive industry has been characterized by significant litigation relating to patent and other intellectual property rights. From time to time, the Company receives claims of alleged patent infringement or notice of patents from patent holders, which typically contain an offer to grant the Company a license. On June 10, 1994, 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 hard drive motor patents owned by Papst. The patents relate to disk drive motors that the Company purchases from motor vendors. On December 1, 1994, Papst dismissed its case without prejudice, but has recently notified the Company that it intends to reinstate the suit if the Company does not agree to enter into a license agreement with Papst. Papst has also put the Company on notice with respect to several additional patents. Although the Company does not believe that the outcome of this matter will have an adverse effect on its financial condition or operating results, adverse resolution of any intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products. In addition, the costs of defending such litigation may be substantial, regardless of the outcome.

The Company's success depends in significant part on the proprietary nature of its technology. Patents issued to the Company may not provide the Company with meaningful advantages and may be challenged. In addition to patent protection of certain intellectual property rights, the Company considers elements of its product designs and processes to be proprietary and confidential. The Company believes that its non-patentable intellectual property, particularly some of its process technology, is an important factor in its success. The Company relies upon employee, consultant, and vendor non-disclosure agreements and a system of internal safeguards to protect its proprietary information. Despite these safeguards, to the extent that a competitor of the Company is able to reproduce or otherwise capitalize on the Company's technology, it may be difficult or impossible for the Company to obtain necessary intellectual property protection in the United States or other countries where such competitor conducts its operations. Moreover, the laws of foreign countries may not protect the Company's intellectual property to the same extent as do the laws of the United States.

Use of Estimates

The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities. Such estimates include, but are not limited to, accruals for warranty against product defects, price protection and stock rotation reserves on product sold to resellers, and reserves for excess, obsolete and slow moving inventories. The rapidly changing market conditions in the hard drive industry make it difficult to estimate such accruals and reserves and actual results may differ significantly from the

Company's estimates and assumptions. Additionally, actual warranty costs could have a negative impact on the Company if the actual rate of drive failure or the cost to repair a drive is greater than what the Company used to estimate the warranty expense accrual. Differences between actual results and such estimates and assumptions can result in adverse effects on the Company's financial condition or operating results.

Potential Impact of Changing Market Demands

The information services business community is currently debating the "thin client architecture" or network computer ("NC") model, which emphasizes central servers for data storage and reduces the need for local desktop storage. Although industry analysts expect these products to account for a small fraction of the personal computer market over the next several years, broader than expected adoption of the NC model would reduce demand for desktop storage products while increasing demand for enterprise storage products. Given the Company's current business concentration in desktop hard drives and its relatively recent entry into enterprise hard drives, if such a scenario occurred on an accelerated basis, it would place the Company at a disadvantage relative to competitors which have a stronger market position in enterprise products.

In addition, certain of the large desktop PC system manufacturers have recently introduced lower cost, lower performance systems principally for the consumer marketplace. These systems have generally been priced below \$1,000 and typically contain lower capacity and performance hard drives. The Company currently participates in this market only to a limited extent. There can be no assurance that the Company will be able to develop lower cost hard drives that will successfully compete in this growing market.

Foreign Sales and Manufacturing Risks

Western Digital products are currently manufactured in Singapore and Malaysia. The Company is subject to certain risks associated with foreign manufacturing, including obtaining requisite United States and foreign governmental permits and approvals, currency exchange fluctuations, currency restrictions, political instability, transportation delays, labor problems, trade restrictions, import, export, exchange and tax controls and reallocations, loss or non-renewal of favorable tax treatment under agreements with foreign tax authorities and changes in tariff and freight rates.

Several Asian countries recently have had large economic downturns and significant declines in the value of their currencies relative to the U.S. Dollar. The "Asian crisis" has reduced the market for the Company's products as well as helped some Asian hard drive companies become more competitive since they can pay some of their costs in devalued currency while receiving their revenue in U.S. Dollars. The Company is unable to predict what effect, if any, the factors associated with the Asian crisis will have on foreign economic conditions, the Company's customers or vendors or the Company's ability to compete in the Asian market.

Price Volatility of Common Stock

The market price of the Company's common stock has been, and may continue to be, extremely volatile and may be significantly affected by factors such as actual or anticipated fluctuations in the Company's operating results, announcements of technological innovations, new products introduced by the Company or its competitors, periods of severe pricing pressures, developments with respect to patents or proprietary rights, conditions and trends in the hard drive industry, changes in financial estimates by securities analysts, general market conditions and other factors. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many high technology companies that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Company's common stock, and there can be no assurance that the market price of the common stock will not decline.

Future Capital Needs

The hard drive industry is capital intensive, and in order to remain competitive, the Company will need to maintain adequate financial resources for capital expenditures, working capital and research and development. If the Company decides to increase its capital expenditures further, or sooner than presently contemplated, or

if results of operations do not meet the Company's expectations, the Company could require additional debt or equity financing, and such equity financing could be dilutive to the Company's existing shareholders. There can be no assurance that such additional funds will be available to the Company or available on favorable terms. The Company may also require additional capital for other purposes not presently contemplated. If the Company is unable to obtain sufficient capital, it could be required to curtail its capital equipment and research and development expenditures, which could adversely affect the Company's financial condition or operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Foreign Exchange Contracts

The Company manages the impact of foreign currency exchange rate changes on certain underlying assets, liabilities and commitments for operating expenses denominated in foreign currencies by entering into short-term, forward exchange contracts. With this approach, the Company expects to minimize the impact of changing foreign exchange rates on the Company's operations. However, there can be no assurance that all foreign currency exposures will be adequately covered, and that the Company's financial condition or operating results will not be affected by changing foreign exchange rates.

Year 2000 Issue

The Year 2000 issue is the result of computer programs, microprocessors, and embedded date reliant systems using two digits rather than four to define the applicable year. If such programs are not corrected, date data concerning the Year 2000 could cause many systems to fail, lock up or generate erroneous results. The Company considers a product to be "Year 2000 compliant" if the product's performance and functionality are unaffected by processing of dates prior to, during and after the Year 2000, but only if all products (for example hardware, software and firmware) used with the product properly exchange accurate date data with it. As storage devices, the Company's hard drives are transparent to Year 2000 requirements. The Company believes its hard drive products are Year 2000 compliant, although other products previously sold by the Company may not be Year 2000 compliant. The Company anticipates that litigation may be brought against vendors, including the Company, of all component products of systems that are unable to properly manage data related to the Year 2000. The Company's agreements with customers typically contain provisions designed to limit the Company's liability for such claims. It is possible, however, that these measures will not provide protection from liability claims, as a result of existing or future federal, state or local laws or ordinances or unfavorable judicial decisions. Any such claims, with or without merit, could result in a material adverse effect on the Company's business, financial condition and results of operations, customer satisfaction issues and potential lawsuits.

The Company has committed personnel and resources to resolve potential Year 2000 issues, both internally and externally (with respect to the Company's suppliers and customers) for both information technology assets and non-information technology assets. The Company is identifying Year 2000 dependencies in its systems, equipment, and processes and is implementing changes to such systems, updating or replacing such equipment, and modifying such processes to make them Year 2000 compliant. The Company has completed its assessment of internal Year 2000 issues and is in the process of remediation of the critical systems. The Company has also initiated formal communications with all of its significant suppliers and financial institutions to evaluate their Year 2000 compliance plans and state of readiness and to determine whether any Year 2000 issues will impede the ability of such suppliers to continue to provide goods and services to the Company. As a general matter, the Company is vulnerable to its key suppliers' failure to remedy their own Year 2000 issues, which could delay shipments of essential components, thereby disrupting or halting the Company's manufacturing operations. Further, the Company also relies, both domestically and internationally, upon governmental agencies, utility companies, telecommunication service companies and other service providers outside of the Company's control. There is no assurance that such suppliers, governmental agencies, financial institutions, or other third parties will not suffer business disruption caused by a Year 2000 issue. Such failures could have a material adverse effect on the Company's financial condition and results of operations. Additionally, the Company is in the process of communicating with its large

customers to determine the extent to which the Company is vulnerable to those third parties' failure to remedy their own Year 2000 issues.

The Company anticipates that its systems, equipment and processes will be substantially Year 2000 compliant by the end of June 1999. Although a budget has been established, the cost to the Company of achieving Year 2000 compliance is evolving; however, it is not expected to have a material effect on the Company's financial condition or results of operations. While the Company currently expects that the Year 2000 issue will not pose significant operational problems, delays in the Company's remediation efforts, or a failure to fully identify all Year 2000 dependencies in the systems, equipment or processes of the Company or its vendors, customers or financial institutions could have material adverse consequences, including delays in the manufacture, delivery or sale of products. Therefore, the Company is in the process of developing contingency plans along with its remediation efforts for continuing operations in the event such problems arise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

DISCLOSURE ABOUT FOREIGN CURRENCY RISK

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

As of June 27, 1998, the Company had outstanding the following purchased foreign currency forward contracts (in millions, except average contract rate):

	JUNE 27, 1998		
	CONTRACT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE	UNREALIZED LOSS*
	----- (U.S. DOLLAR EQUIVALENT AMOUNTS)		
Foreign currency forward contracts:			
Singapore Dollar.....	\$178.9	1.60	\$ 8.8
Malaysian Ringgit.....	61.4	3.66	8.3
British Pound Sterling.....	1.6	1.63	--
	-----		-----
	\$241.9		\$17.1
	=====		=====

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

DISCLOSURE ABOUT OTHER MARKET RISKS

At June 27, 1998, the market value of the Company's 5.25% zero coupon convertible subordinated debentures due in 2018 was approximately \$335 million, compared to the related carrying value of \$469.2 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.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Digital Corporation and subsidiaries as of June 28, 1997 and June 27, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended June 27, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Orange County, California
July 27, 1998

WESTERN DIGITAL CORPORATION
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
Revenues, net.....	\$2,865,219	\$4,177,857	\$3,541,525
Costs and expenses:			
Cost of revenues.....	2,483,155	3,527,574	3,441,475
Research and development.....	150,112	150,157	203,733
Selling, general and administrative (Note 8).....	154,497	198,530	192,142
Total costs and expenses.....	2,787,764	3,876,261	3,837,350
Operating income (loss).....	77,455	301,596	(295,825)
Net interest income (Note 2).....	13,134	13,223	3,817
Gain on sale of multimedia business (Note 8).....	17,275	--	--
Income (loss) before income taxes.....	107,864	314,819	(292,008)
Provision (benefit) for income taxes (Note 5).....	10,970	47,223	(1,791)
Net income (loss).....	\$ 96,894	\$ 267,596	\$ (290,217)
Earnings (loss) per common share (Note 9):			
Basic.....	\$ 1.05	\$ 3.07	\$ (3.32)
Diluted.....	\$ 1.01	\$ 2.86	\$ (3.32)
Common shares used in computing per share amounts (Note 9):			
Basic.....	92,559	87,261	87,525
Diluted.....	96,248	93,522	87,525

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS

	JUNE 28, 1997	JUNE 27, 1998
	-----	-----
Current assets:		
Cash and cash equivalents.....	\$ 208,276	459,830
Accounts receivable, less allowance for doubtful accounts of \$11,706 in 1997 and \$15,926 in 1998.....	545,552	369,013
Inventories (Note 2).....	224,474	186,516
Prepaid expenses and other assets (Note 5).....	39,593	36,763
	-----	-----
Total current assets.....	1,017,895	1,052,122
Property and equipment at cost, net (Note 2).....	247,895	346,987
Intangible and other assets, net.....	41,332	43,579
	-----	-----
Total assets.....	\$1,307,122	\$1,442,688
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 417,984	330,130
Accrued compensation.....	59,227	23,697
Accrued expenses.....	176,494	234,752
	-----	-----
Total current liabilities.....	653,705	588,579
Long-term debt (Note 3).....	--	519,188
Deferred income taxes (Note 5).....	33,430	17,163
Commitments and contingent liabilities (Note 4)		
Shareholders' equity (Note 6):		
Preferred stock, \$.01 par value; Authorized -- 5,000 shares; Outstanding -- None.....		
Common stock, \$.01 par value; Authorized -- 225,000 shares; Outstanding -- 101,332 shares in 1997 and 1998.....	1,013	1,013
Additional paid-in capital.....	356,654	326,244
Retained earnings.....	488,066	197,849
Treasury stock-common shares at cost; 15,436 shares in 1997 and 13,039 shares in 1998.....	(225,746)	(207,348)
	-----	-----
Total shareholders' equity.....	619,987	317,758
	-----	-----
Total liabilities and shareholders' equity.....	\$1,307,122	\$1,442,688
	=====	=====

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE YEARS ENDED JUNE 27, 1998
(IN THOUSANDS)

	COMMON STOCK		TREASURY STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE AT JULY 1, 1995.....	100,964	\$1,009	(1,610)	\$ (10,822)	\$359,663	\$123,576	\$ 473,426
Common stock repurchase program (Note 6).....	--	--	(15,440)	(132,114)	--	--	(132,114)
Exercise of stock options (Note 6).....	368	4	1,568	12,833	(5,528)	--	7,309
ESPP shares issued (Note 6).....	--	--	1,292	8,686	(309)	--	8,377
Net income.....	--	--	--	--	--	96,894	96,894
BALANCE AT JUNE 29, 1996.....	101,332	1,013	(14,190)	(121,417)	353,826	220,470	453,892
Common stock repurchase program (Note 6).....	--	--	(5,172)	(135,506)	(9,068)	--	(144,574)
Exercise of stock options (Note 6).....	--	--	2,790	22,087	(8,350)	--	13,737
ESPP shares issued (Note 6).....	--	--	1,136	9,090	37	--	9,127
Income tax benefit from stock options exercised (Note 5).....	--	--	--	--	20,209	--	20,209
Net income.....	--	--	--	--	--	267,596	267,596
BALANCE AT JUNE 28, 1997.....	101,332	1,013	(15,436)	(225,746)	356,654	488,066	619,987
Common stock repurchase program (Note 6).....	--	--	--	--	(35,828)	--	(35,828)
ESPP shares issued (Note 6).....	--	--	1,231	9,506	3,178	--	12,684
Exercise of stock options (Note 6).....	--	--	1,166	8,892	(99)	--	8,793
Income tax benefit from stock options exercised (Note 5).....	--	--	--	--	2,339	--	2,339
Net loss.....	--	--	--	--	--	(290,217)	(290,217)
BALANCE AT JUNE 27, 1998.....	101,332	\$1,013	(13,039)	\$(207,348)	\$326,244	\$197,849	\$ 317,758

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

	YEARS ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss).....	\$ 96,894	\$ 267,596	\$(290,217)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization.....	51,643	63,485	106,550
Interest accrued on convertible debentures.....	--	--	9,059
Gain on sale of multimedia business.....	(17,275)	--	--
Changes in assets and liabilities, excluding the effects of business sales (Note 8):			
Accounts receivable.....	(107,532)	(136,079)	176,539
Inventories.....	(69,180)	(81,852)	37,958
Prepaid expenses and other assets.....	(5,478)	2,184	2,830
Accounts payable, accrued compensation and accrued expenses.....	110,311	139,683	(65,126)
Deferred income taxes.....	417	(1,570)	(16,267)
Other assets.....	(1,519)	712	(299)
Net cash provided by (used for) operating activities.....	58,281	254,159	(38,973)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures, net.....	(108,696)	(155,958)	(198,641)
Proceeds from sale of businesses (Note 8).....	85,486	--	--
Purchases of short-term investments.....	(34,685)	--	--
Sales and maturities of short-term investments.....	88,264	36,598	--
Decrease (increase) in other assets.....	(7,188)	(7,587)	9,758
Net cash provided by (used for) investing activities.....	23,181	(126,947)	(188,883)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures (Note 3)...	--	--	460,129
Proceeds from issuance of bank debt (Note 3).....	--	--	50,000
Debt issuance costs.....	--	--	(18,707)
Exercise of stock options, including tax benefit.....	7,309	33,946	11,132
Proceeds from ESPP shares issued.....	8,377	9,127	12,684
Common stock repurchase program (Note 6).....	(132,114)	(144,574)	(35,828)
Net cash provided by (used for) financing activities.....	(116,428)	(101,501)	479,410
Net increase (decrease) in cash and cash equivalents.....	(34,966)	25,711	251,554
Cash and cash equivalents at beginning of year.....	217,531	182,565	208,276
Cash and cash equivalents at end of year.....	\$ 182,565	\$ 208,276	\$ 459,830

See notes to consolidated financial statements.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

Fiscal Year

The Company's fiscal year end is a 52 or 53-week year ending on the Saturday nearest June 30. Accordingly, the 1996, 1997 and 1998 fiscal years ended on June 29, June 28, and June 27, respectively, and included 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 wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounts of foreign subsidiaries have been remeasured using the U.S. dollar as the functional currency. As such, foreign exchange gains or losses resulting from remeasurement of these accounts are reflected in the results of operations. Monetary and nonmonetary asset and liability accounts have been remeasured using the exchange rate in effect at each year end and using historical rates, respectively. Income statement accounts have been remeasured using average monthly exchange rates.

Cash Equivalents

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

Concentration of Credit Risk

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

Inventory Valuation

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

Depreciation and Amortization

The cost of property and equipment is depreciated over the estimated useful lives of the respective assets. Depreciation is computed on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms. Goodwill and purchased technology, which are included in other assets, are capitalized at cost and amortized on a straight-line basis over their estimated lives of five to fifteen years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Revenue Recognition

The Company recognizes revenue at time of shipment and records a reserve for price adjustments, warranty and estimated sales returns. In accordance with standard industry practice, the Company's agreements with its resellers provide price protection for inventories held by the resellers at the time of published list price reductions and, under certain circumstances, stock rotation for slow-moving items. These agreements may be terminated upon written notice by either party. In the event of termination, the Company may be obligated to repurchase a certain portion of the resellers' inventory.

Advertising Expense

Advertising costs are expensed as incurred. Selling, general and administrative expenses of the Company include advertising costs of \$9.5 million, \$16.3 million and \$17.4 million in 1996, 1997 and 1998, respectively.

Income Taxes

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

Two-For-One Stock Split

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

Per Share Information

Effective December 27, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This statement replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings (loss) per share amounts for all periods have been presented and restated to conform to the SFAS No. 128 requirements (see Note 9).

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-Based Compensation

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

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 130 and 131, "Reporting Comprehensive Income" ("SFAS 130") and "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), respectively (collectively, the "Statements"). The Statements are effective for fiscal years beginning after December 15, 1997. SFAS 130 establishes standards for reporting of comprehensive income and its components in annual and interim financial statements. SFAS 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS 130 and SFAS 131, respectively. Application of the Statements' requirements is not expected to have a material impact on the Company's consolidated financial position, results of operations or earnings (loss) per share data as currently reported.

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

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 27, 1998, the market value of the Company's convertible debentures was approximately \$335 million, compared to the related carrying value of \$469.2 million. The carrying amounts of all other financial instruments in the consolidated balance sheets approximate fair values.

Foreign Exchange Contracts

The Company enters into short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenditures denominated in foreign currencies. These contracts are not entered into for trading purposes, have maturity dates that do not exceed twelve months, and are accounted for as hedges. The unrealized gains and losses on these contracts are deferred and recognized in the results of operations in the period in which the hedged transactions are consummated. Costs associated with entering into such contracts are typically amortized over the life of the instrument. At June 28, 1997 and June 27, 1998, the Company had outstanding \$266.6 and \$241.9 million, respectively, of forward exchange contracts with commercial banks. As of June 28, 1997 and June 27, 1998,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the unrealized gains and losses on outstanding forward exchange contracts were not material. Realized gains and losses are primarily recorded in cost of revenues in the accompanying consolidated statements of operations.

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

Use of Estimates

Company management has made a number of estimates and assumptions relating to the reporting of assets and liabilities in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Reclassifications

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

NOTE 2. SUPPLEMENTAL FINANCIAL STATEMENT DATA (IN THOUSANDS)

	1996	1997	1998
	-----	-----	-----
Net Interest Income			
Interest income.....	\$13,134	\$ 13,223	\$ 15,952
Interest expense.....	--	--	12,135
	-----	-----	-----
Net interest income.....	\$13,134	\$ 13,223	\$ 3,817
	=====	=====	=====
Cash paid for interest.....	\$ --	\$ --	\$ 2,073
	=====	=====	=====
Inventories			
Finished goods.....		\$ 137,762	\$ 126,363
Work in process.....		56,352	28,287
Raw materials and component parts.....		30,360	31,866
		-----	-----
		\$ 224,474	\$ 186,516
		=====	=====
Property and Equipment			
Land and buildings.....		\$ 53,080	\$ 92,234
Machinery and equipment.....		285,986	415,469
Furniture and fixtures.....		13,260	14,060
Leasehold improvements.....		63,335	79,490
		-----	-----
		415,661	601,253
Accumulated depreciation and amortization.....		(167,766)	(254,266)
		-----	-----
Net property and equipment.....		\$ 247,895	\$ 346,987
		=====	=====

NOTE 3. LONG-TERM DEBT

Line of Credit

In January 1998, and as amended in February and June 1998, the Company replaced its then existing revolving credit facility with a secured revolving credit and term loan facility ("Senior Bank Facility"). The Senior Bank Facility provides the Company with a \$200 million revolving credit line and a \$50 million term

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

loan, both of which expire in January 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either Libor plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility requires the Company to maintain certain financial ratios, prohibits the payment of dividends and contains a number of other restrictive covenants. As of June 27, 1998, the \$50 million term loan was funded but there were no borrowings under the revolving credit line.

Convertible Debentures

On February 18, 1998, the Company received gross proceeds of \$460.1 million (before the Initial Purchasers' discount) from a private offering of 5.25% zero coupon convertible subordinated debentures due in 2018. The principal amount at maturity of the Debentures is \$1.3 billion. The Debentures are subordinated to all senior debt; are convertible into 19.4 million shares of the Company's common stock at the rate of 14.935 shares per \$1,000 principal amount at maturity; are redeemable at the option of the Company any time after February 18, 2003 at the issue price plus accrued original issue discount to the date of redemption; and will be repurchased by the Company, at the option of the holder, as of February 18, 2003, February 18, 2008 or February 18, 2013, or if there is a Fundamental Change (as defined in the Debenture documents), at the issue price plus accrued original issue discount to the date of redemption.

NOTE 4. COMMITMENTS AND CONTINGENT LIABILITIES

Operating Leases

The Company leases certain facilities and equipment under long-term, non-cancelable operating leases which expire at various dates through 2015. Rental expense under these leases, including month-to-month rentals, was \$27.2, \$32.2, and \$39.3 million in 1996, 1997, and 1998, respectively.

Future minimum rental payments under non-cancelable operating leases as of June 27, 1998 are as follows (in thousands):

1999.....	40,665
2000.....	30,525
2001.....	19,052
2002.....	9,010
2003.....	3,505
Thereafter.....	29,975

Total future minimum rental payments.....	\$132,732
	=====

Legal Proceedings

The Company was sued by Amstrad PLC ("Amstrad") in December 1992 in Orange County Superior Court. The complaint alleges that hard drives supplied by the Company in calendar 1988 and 1989 were defective and caused damages to Amstrad of \$186.0 million in out-of-pocket expenses, lost profits, injury to Amstrad's reputation and loss of goodwill. The Company filed a counterclaim for \$3.0 million in actual damages in addition to exemplary damages in an unspecified amount. The Company believes that it has meritorious defenses to Amstrad's claims and intends to vigorously defend itself against the Amstrad claims and to press its claims against Amstrad in this action. The case is scheduled for trial in September 1998. Although the Company believes that the final disposition of this matter will not have an adverse effect on the Company's financial condition or operating results, if Amstrad were to prevail on its claims, a judgment for a material amount could be awarded against the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Between December 12, 1997 and February 24, 1998, eight class action suits were filed against the Company and certain of its officers and directors. The plaintiffs in the actions purport to represent purchasers of the Company's common stock during various periods ranging from July 25, 1996, through December 2, 1997 (collectively, the "Class Periods"). The complaints allege that the Company issued false and misleading statements during the respective Class Periods concerning the outlook for the Company's operations and earnings and that the Company issued false and misleading financial statements in fiscal years 1996 and 1997 by improperly deferring the write-down of obsolete inventory. The complaints seek compensatory damages for the purported class members in an unspecified amount. The Court ordered the cases consolidated and designated the plaintiffs in the first case filed as the lead plaintiffs and the law firm representing such plaintiffs as lead counsel. The Company filed a motion to dismiss the amended consolidated complaint which was granted by the Court with prejudice.

The Company is also subject to other legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its financial position, results of operations or liquidity.

NOTE 5. INCOME TAXES

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

	1996	1997	1998
	-----	-----	-----
United States.....	\$(10,877)	\$105,884	\$(348,397)
International.....	118,741	208,935	56,389
	-----	-----	-----
Income (loss) before income taxes.....	\$107,864	\$314,819	\$(292,008)
	=====	=====	=====

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

	1996	1997	1998
	-----	-----	-----
Current			
United States.....	\$ 400	\$ 29,153	\$ (6,195)
International.....	10,262	9,964	4,905
State.....	310	8,106	(501)
	-----	-----	-----
	10,972	47,223	(1,791)
Deferred, net.....	(2)	--	--
	-----	-----	-----
Provision (benefit) for income taxes.....	\$ 10,970	\$ 47,223	\$ (1,791)
	=====	=====	=====

The tax benefits associated with the exercise of non-qualified stock options, the disqualifying disposition of stock acquired with incentive stock options, and the disqualifying disposition of stock acquired under the employee stock purchase plan reduce taxes currently payable as shown above by \$20.2 and \$2.3 million for 1997 and 1998, respectively. Such benefits are credited to additional paid-in capital.

The total cash paid for income taxes was \$4.5 million, \$19.2 million and \$16.9 million for the years ended June 29, 1996, June 28, 1997 and June 27, 1998, 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, 1997, and June 27, 1998 are as follows (in thousands):

	1997	1998
	-----	-----
Deferred tax assets:		
NOL carryforward.....	\$ 11,079	\$ 83,649
Business credit carryforward.....	30,104	29,323
Reserves and accrued expenses not currently deductible....	69,557	122,454
All other.....	1,854	18,920
	-----	-----
	112,594	254,346
Valuation allowance.....	(86,608)	(254,297)
	-----	-----
Total deferred tax assets.....	\$ 25,986	\$ 49
	=====	=====
Deferred tax liabilities:		
Unremitted income of foreign subsidiaries.....	\$ 40,640	\$ 17,163
All other.....	5	3,148
	-----	-----
Total deferred tax liabilities.....	\$ 40,645	\$ 20,311
	=====	=====

SFAS 109 requires deferred taxes to be determined for each tax paying component of an enterprise within each tax jurisdiction. The deferred tax assets indicated above are attributable to tax jurisdictions where a history of earnings has not been established. The taxable earnings in these tax jurisdictions is also subject to volatility. Therefore, the Company believes a valuation allowance is needed to reduce the deferred tax asset to an amount that is more likely than not to be realized. The Company increased this valuation allowance in 1998 because of the losses incurred in these jurisdictions.

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

	1996	1997	1998
	-----	-----	-----
U.S. Federal statutory rate.....	35.0%	35.0%	(35.0)%
State income taxes, net.....	0.2	1.7	(0.2)
Tax rate differential on international income.....	(30.7)	(12.7)	(15.5)
Effect of valuation allowance.....	3.8	(10.0)	46.5
Other.....	1.9	1.0	3.6
	-----	-----	-----
Effective tax rate.....	10.2%	15.0%	(0.6)%
	=====	=====	=====

Certain income of selected subsidiaries is taxed at substantially lower income tax rates as compared with local statutory rates. The lower rates reduced income taxes and increased net earnings or reduced the net loss by \$30.1 million (\$.31 per share, diluted), \$58.5 million (\$.63 per share, diluted) and by \$17.1 million (\$.20 per share, diluted) in 1996, 1997 and 1998, respectively. These lower rates are in effect through fiscal year 2004.

At June 27, 1998, the Company had federal net operating loss carryforwards and tax credits of \$218.1 million and \$29.3 million, respectively. The loss carryforwards expire in fiscal years 2008 through 2013 and the credit carryforwards expire in fiscal years 1999 through 2012.

Net undistributed earnings from international subsidiaries at June 27, 1998 were \$523.7 million. The net undistributed earnings are intended to finance local operating requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6. SHAREHOLDERS' EQUITY

The following table summarizes all shares of common stock reserved for issuance at June 27, 1998 (in thousands):

	NUMBER OF SHARES -----
Issuable in connection with:	
Convertible debentures.....	19,374
Exercise of stock options, including options available for grant.....	16,430
Employee stock purchase plan.....	2,373

	38,177
	=====

Stock Option Plans

Western Digital's Employee Stock Option Plan ("Employee Plan") is administered by the Compensation Committee of the Board of Directors, which determines the vesting provisions, the form of payment for the shares and all other terms of the options. Terms of the Employee Plan require that the exercise price of options be not less than the fair market value of the common stock on the date of grant. Options granted generally vest 25% one year from the date of grant and in twelve quarterly increments thereafter and have a ten-year term. As of June 27, 1998, 4,659,113 options were exercisable and 3,327,523 options were available for grant. Participants in the Employee Plan may be permitted to utilize stock purchased previously as consideration to exercise options or to exercise on a cashless basis, pursuant to the terms of the Employee Plan.

In 1985, the Company adopted the Stock Option Plan for Non-Employee Directors ("Director Plan") and reserved 1.6 million shares for issuance thereunder. The Director Plan was restated and amended in 1995. The Director Plan provides for initial option grants to new directors of 30,000 shares per director and additional grants of 7,500 options per director each year upon their reelection as a director at the annual shareholders' meeting. Terms of the Director Plan require that options have a ten-year term and that the exercise price of options be not less than the fair market value at the date of grant. As of June 27, 1998, 153,750 options were exercisable and 750,964 options were available for grant. The following table summarizes activity under the Employee and Director Plans combined (in thousands, except per share amounts):

	NUMBER OF SHARES -----	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE -----
OPTIONS OUTSTANDING AT JULY 1, 1995.....	9,176	\$ 5.33
Granted.....	3,904	9.30
Exercised, net of value of redeemed shares.....	(1,936)	4.00
Canceled or expired.....	(1,802)	7.32
	-----	-----
OPTIONS OUTSTANDING AT JUNE 29, 1996.....	9,342	6.90
Granted.....	3,630	17.26
Exercised, net of value of redeemed shares.....	(2,790)	5.11
Canceled or expired.....	(596)	9.80
	-----	-----
OPTIONS OUTSTANDING AT JUNE 28, 1997.....	9,586	11.20
Granted.....	4,433	27.17
Exercised, net of value of redeemed shares.....	(1,166)	7.54
Canceled or expired.....	(502)	20.00
	-----	-----
OPTIONS OUTSTANDING AT JUNE 27, 1998.....	12,351	\$16.92
	=====	=====

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables summarize information about options outstanding and exercisable under the Employee and Director Plans combined at June 27, 1998 (in thousand, except per share amounts):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE CONTRACTUAL LIFE (IN YEARS)	WEIGHTED EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$ 1.44 - \$ 8.81	4,201	6.24	\$ 7.11	3,248	\$ 6.76
8.88 - 18.56	3,321	8.14	12.71	1,272	11.96
18.63 - 34.19	4,387	9.20	27.11	244	27.53
34.50 - 48.50	442	8.99	40.66	49	34.94
Total	12,351	7.90	\$16.92	4,813	\$ 9.48

Stock Purchase Rights

In 1989, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carries one Right to Purchase Series "A" Junior Participating Preferred Stock ("the Right"). The Right enables the holder, under certain circumstances, to purchase common stock of Western Digital or of the acquiring Company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding common stock. The Rights are redeemable by the Company at \$.01 per Right and expire in 1999.

Employee Stock Purchase Plan

During 1994, the Company implemented an employee stock purchase plan ("ESPP") in accordance with Section 423 of the Internal Revenue Code whereby eligible employees may authorize payroll deductions of up to 10% of their salary to purchase shares of the Company's common stock at 85% of the fair market value of common stock on the date of grant or the exercise date, whichever is less. Approximately 7.0 million shares of common stock have been reserved for issuance under this plan. Approximately 1,292,000, 1,136,000 and 1,231,000 shares were issued under this plan during 1996, 1997 and 1998, respectively.

Savings and Profit Sharing Plan

Effective July 1, 1991, the Company adopted an annual Savings and Profit Sharing Plan covering eligible domestic employees. The Company authorized 6.5% and 4.1% of defined pre-tax profits to be allocated to the participants in 1996 and 1997, respectively. Payments to participants of the Savings and Profit Sharing Plan were \$7.1 and \$12.6 million in 1996 and 1997, respectively. No amounts were paid under the plan in 1998.

Common Stock Repurchase Program

In February 1995, the Company established an open market stock repurchase program. Under this program, the Company has spent \$323.4 million in connection with the repurchase of 22.2 million shares of its common stock at an average price of \$14.55 per share. The \$323.4 million includes the acquisition price of Western Digital common stock and amounts paid to settle certain put option arrangements entered into in connection with the open market stock repurchase program.

Pro Forma Information

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its stock options

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(including shares issued under the Stock Option Plans and the ESPP, collectively called "options") granted subsequent to July 1, 1995, under the fair value method of that statement.

The fair value of options granted in 1996, 1997 and 1998 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		
	1996	1997	1998	1996	1997	1998
Option life (in years).....	5.0	4.0	4.5	2.0	2.0	2.0
Risk-free interest rate.....	6.5%	6.0%	5.5%	6.5%	6.0%	5.5%
Stock price volatility.....	.49	.58	.76	.49	.58	.76
Dividend yield.....	--	--	--	--	--	--

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

	1996	1997	1998
Options granted under the Stock Option Plans.....	\$4.90	\$9.10	\$17.10
Shares granted under the ESPP Plan.....	\$4.20	\$6.75	\$ 7.39

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 No. 123, the Company's net income (loss) and net earnings (loss) per share would have been reduced to the amounts indicated below:

	YEAR ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
Pro forma net income (loss) (in thousands).....	\$92,870	\$254,831	\$(324,178)
Pro forma net earnings (loss) per share:			
Basic.....	\$ 1.00	\$ 2.92	\$ (3.70)
Diluted.....	\$.96	\$ 2.72	\$ (3.70)

Pro forma net income (loss) and net earnings (loss) per share reflects only options granted in the years ended June 29, 1996, June 28, 1997, and June 27, 1998. Therefore, the full impact of calculating compensation expense for options under SFAS No. 123 is not reflected in the pro forma net income (loss) amounts presented above because compensation expense is reflected over the options' vesting period and compensation expense for options granted before July 2, 1995 is not considered.

NOTE 7. BUSINESS SEGMENT AND INTERNATIONAL OPERATIONS

Western Digital currently operates in one industry segment -- the design, development, manufacture and marketing of hard drives for the computer marketplace. During 1996 and 1997, sales to Gateway 2000 and to IBM accounted for 11% and 13% of the Company's revenues, respectively. During 1998, sales to Compaq accounted for 14% of the Company's revenues.

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

The following table summarizes operations by entities located within the indicated geographic areas for the past three years. United States revenues to unaffiliated customers include export sales to various countries in Eastern Europe and Asia of \$674.1, \$763.5, and \$606.7 million in 1996, 1997, and 1998, respectively.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Transfers between geographic areas are accounted for at prices comparable to normal sales through outside distributors. General and corporate expenses of \$61.5, \$62.8, and \$77.6 million in 1996, 1997, and 1998, respectively, have been excluded in determining operating income (loss) by geographic region.

	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	TOTAL
	-----	-----	-----	-----	-----
	(IN MILLIONS)				
Year ended June 29, 1996					
Sales to unaffiliated customers.....	\$2,084	\$ 735	\$ 46	\$ --	\$2,865
Transfers between geographic areas.....	869	96	2,540	(3,505)	--
Revenues, net.....	\$2,953	\$ 831	\$2,586	\$(3,505)	\$2,865
Operating income.....	\$ 21	\$ 9	\$ 113	\$ (4)	\$ 139
Identifiable assets.....	\$ 569	\$ 143	\$ 276	\$ (4)	\$ 984
Year ended June 28, 1997					
Sales to unaffiliated customers.....	\$2,980	\$1,107	\$ 91	\$ --	\$4,178
Transfers between geographic areas.....	1,340	167	3,646	(5,153)	--
Revenues, net.....	\$4,320	\$1,274	\$3,737	\$(5,153)	\$4,178
Operating income.....	\$ 158	\$ 15	\$ 200	\$ (8)	\$ 365
Identifiable assets.....	\$ 733	\$ 186	\$ 404	\$ (16)	\$1,307
Year ended June 27, 1998					
Sales to unaffiliated customers.....	\$2,630	\$ 886	\$ 26	\$ --	\$3,542
Transfers between geographic areas.....	998	166	3,324	(4,488)	--
Revenues, net.....	\$3,628	\$1,052	\$3,350	\$(4,488)	\$3,542
Operating income (loss).....	\$(271)	\$ 7	\$ 66	\$ (20)	\$(218)
Identifiable assets.....	\$ 907	\$ 116	\$ 455	\$ (35)	\$1,443

NOTE 8. SALE OF BUSINESSES

Sale of Multimedia Business

In October 1995, the Company sold its multimedia business to Philips Semiconductors, Inc. ("Philips") for \$51.9 million cash, resulting in a one-time, pre-tax gain of \$17.3 million. Through this transaction, Philips acquired specific intellectual properties and assumed certain liabilities directly related to the multimedia business.

Sale of High Speed Fiber-Optic Communication Links Business

In March 1996, the Company sold its high speed fiber-optic communication links business to Vixel Corporation for \$1.2 million cash as well as other non-cash consideration. This transaction was not material to the Company's financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Sale of Input/Output Products Business

During April 1996, the Company disposed of its input/output products business, which represented the final element of its microcomputer products group. The transaction included the sale of related assets and resulted in a restructuring of the Company's other support organizations. The restructuring resulted in a personnel reduction of 102 people, not including employees that were hired by the purchaser, Adaptec, Inc. The net result of the asset sale and related restructuring charges is included in selling, general and administrative expenses and was not material to the Company's 1996 results of operations. The consideration received and related costs associated with the sale of the input/output products business are as follows (in millions):

Sales price.....	\$ 32.4
Assets sold or written off:	
Inventory, net.....	(18.0)
Property and equipment.....	(2.5)
Prepaid expenses.....	(.5)

Total assets sold or written off.....	(21.0)
Accruals for severance, facilities, contractual commitments and other miscellaneous items.....	(11.4)

	\$ --
	=====

As of June 29, 1996, \$8.7 million of the accruals for severance, facilities, contractual commitments and other miscellaneous items remained. Substantially all of these accruals were utilized in 1997 to settle obligations resulting from the sale and related restructuring.

NOTE 9. EARNINGS (LOSS) PER SHARE

As discussed in Note 1, the Company adopted SFAS No. 128 effective December 27, 1997. The following table illustrates the computation of basic and diluted earnings (loss) per share under the provisions of SFAS No. 128.

	YEARS ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
	-----	-----	-----
Numerator:			
Numerator for basic and diluted earnings (loss) per share -- net income (loss).....	\$96,894	\$267,596	\$(290,217)
Denominator:			
Denominator for basic earnings (loss) per share -- weighted average number of common shares outstanding during the period.....	92,559	87,261	87,525
Incremental common shares attributable to exercise of outstanding options, put options and ESPP contributions.....	3,689	6,261	--
	-----	-----	-----
Denominator for diluted earnings (loss) per share...	96,248	93,522	87,525
	=====	=====	=====
Basic earnings (loss) per share.....	\$ 1.05	\$ 3.07	\$ (3.32)
	=====	=====	=====
Diluted earnings (loss) per share.....	\$ 1.01	\$ 2.86	\$ (3.32)
	=====	=====	=====

Substantially all options were included in the computation of diluted earnings per share for 1996 and 1997. In 1998, 12.4 million shares relating to the possible exercise of outstanding stock options and 19.4 million shares issuable upon conversion of the convertible debentures were not included in the computation of diluted loss per share as their effect would have been anti-dilutive.

WESTERN DIGITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST	SECOND*	THIRD	FOURTH**
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
1997				
Revenues, net.....	\$ 883,115	\$1,118,647	\$1,096,212	\$1,079,883
Gross profit.....	112,889	163,389	184,855	189,150
Operating income.....	35,769	71,835	94,062	99,930
Net income.....	32,878	64,229	82,595	87,894
Basic earnings per share.....	.38	.73	.95	1.02
Diluted earnings per share.....	\$.36	\$.68	\$.88	\$.95
	=====	=====	=====	=====
1998				
Revenues, net.....	\$1,090,164	\$ 969,564	\$ 831,294	\$ 650,503
Gross profit (loss).....	161,059	(55,548)	36,279	(41,740)
Operating income (loss).....	72,063	(147,198)	(58,221)	(162,469)
Net income (loss).....	62,707	(145,183)	(45,022)	(162,719)
Basic earnings (loss) per share.....	.72	(1.66)	(.51)	(1.84)
Diluted earnings (loss) per share.....	\$.67	\$ (1.66)	\$ (.51)	\$ (1.84)
	=====	=====	=====	=====

* Second quarter 1998 results include special charges of \$148 million recorded primarily to cost of sales.

** Fourth quarter 1998 results include \$22 million of costs recorded to research and development principally related to the start-up of the IBM Agreement.

WESTERN DIGITAL CORPORATION

SCHEDULE II -- CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
 THREE YEARS ENDED JUNE 27, 1998
 (IN THOUSANDS)

	ALLOWANCE FOR DOUBTFUL ACCOUNTS

Balance at July 1, 1995.....	\$ 9,309
Charges to operations.....	1,279
Deductions.....	(1,212)

Balance at June 29, 1996.....	9,376
Charges to operations.....	7,116
Deductions.....	(4,786)

Balance at June 28, 1997.....	11,706
Charges to operations.....	4,674
Deductions.....	(454)

Balance at June 27, 1998.....	\$15,926
	=====

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 1998 Annual Meeting of Shareholders under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 1998.

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 1998 Annual Meeting of Shareholders under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Stock Performance Graph," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is incorporated herein by reference the information required by this Item included in the Company's Proxy Statement for the 1998 Annual Meeting of Shareholders under the caption "Security Ownership of Beneficial Owners," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 1998.

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 1998 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions," which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended June 27, 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS A PART OF THIS REPORT:

(1) INDEX TO FINANCIAL STATEMENTS

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

(2) FINANCIAL STATEMENT SCHEDULES

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

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

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

(3) EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
3.2.2	By-laws of the Company, as amended March 20, 1997(14)
3.3	Certificate of Agreement of Merger(2)
3.4.1	Certificate of Amendment and Restatement of Certificate of Incorporation dated March 27, 1997(14)
4.1	Rights Agreement between the Company and First Interstate Bank, Ltd., as Rights Agent, dated as of December 1, 1988 (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 12, 1988)
4.2	Amendment No. 1 to Rights Agreement by and between the Company and First Interstate Bank, Ltd. dated as of August 10, 1990 (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 14, 1990)
4.2.1	Amendment No. 2 to Rights Agreement dated as of January 19, 1997, by and between Western Digital Corporation and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997)
4.3	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company (incorporated by reference to Exhibit A of Exhibit 1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 12, 1988)
4.4	Purchase Agreement dated February 12, 1998, by and between the Company and the Initial Purchasers named therein(19)
4.5	Indenture, dated as of February 18, 1998, between the Company and State Street Bank and Trust Company of California, N.A.(19)
4.6	Registration Rights Agreement, dated as of February 18, 1998, by and between the Company and the Initial Purchasers named therein(19)
4.7	The Company's Zero Coupon Convertible Subordinated Debenture due 2018 and the Global Form of the Company's Zero Coupon Convertible Subordinated Debenture due 2018 (which is identical to the Company's Zero Coupon Convertible Subordinated Debenture due 2018, except for certain provisions as marked)(19)
10.1.3	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 13, 1997* **
10.3.2	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 13, 1997* **
10.4	Receivables Contribution and Sale Agreements, dated as of January 7, 1994 by and between the Company, as seller, and Western Digital Capital Corporation, as buyer(5)
10.5	Receivables Purchase Agreement, dated as of January 7, 1994, by and among Western Digital Capital Corporation, as seller, the Company, as servicer, the Financial Institutions listed therein, as bank purchasers and J.P. Morgan Delaware, as administrative agent(5)
10.6	First Amendment to Receivables Purchase Agreement, dated March 23, 1994, by and between Western Digital Corporation, as seller and the Financial Institutions listed therein as bank purchasers and administrative agents(5)
10.7	Assignment Agreement, dated as of March 23, 1994, by and between J. P. Morgan Delaware as Bank Purchaser and Assignor and the Bank of California, N.A. and the Long-term Credit Bank of Japan, LTD., Los Angeles Agency, as Assignees(5)
10.8	Asset Purchase Agreement dated December 16, 1993 by and between Motorola, Inc. and Western Digital regarding the sale and purchase of Western Digital's wafer fabrication facilities and certain related assets(4)
10.10.1	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(16)**

EXHIBIT NUMBER -----	DESCRIPTION -----
10.11	The Western Digital Corporation Executive Bonus Plan(6)**
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan* **
10.12	The Extended Severance Plan of the Registrant(6)**
10.12.1	Amendment No. 1 to the Company's Extended Severance Plan(11)**
10.13	Manufacturing Building Lease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of November 9, 1993 (incorporated by reference to Exhibit 10.17.1 to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on January 25, 1994)
10.16.1	Western Digital Long-Term Retention Plan, as amended July 10, 1997(15)**
10.17	Subleases between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of September 1, 1991(1)
10.18	Sublease between Wan Tien Realty Pte Ltd and Western Digital (Singapore) Pte Ltd dated as of October 12, 1992(1)
10.21.1	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(14)**
10.22	Office Building Lease between The Irvine Company and the Company dated as of January 13, 1988 (incorporated by reference to Exhibit 10.11 to Amendment No. 2 to the Company's Annual Report to Form 10-K as filed on Form 8 with the Securities and Exchange Commission on November 18, 1988)(8)
10.30	The Company's Savings and Profit Sharing Plan(9)**
10.31	First Amendment to the Company's Savings and Profit Sharing Plan(9)**
10.32	Second Amendment to the Company's Savings and Profit Sharing Plan(10)**
10.32.1	Third Amendment to the Company's Retirement Savings and Profit Sharing Plan(12)**
10.32.2	Fourth Amendment to the Company's Retirement Savings and Profit Sharing Plan(14)**
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan* **
10.33	The Company's Amended and Restated Stock Option Plan for Non-Employee Directors, amended as of July 10, 1997(15)**
10.34	Fiscal Year 1998 Western Digital Management Incentive Plan(15)**
10.38	Revolving Credit and Term Loan Agreement, dated as of January 28, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions listed therein(17)
10.38.1	First Amendment to Revolving Credit and Term Loan Agreement, dated as of February 13, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein(18)
10.38.2	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of February 25, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.3	Third Amendment to Revolving Credit and Term Loan Agreement, dated as of June 26, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation***
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation***
21	Subsidiaries of the Company
23	Consent of Independent Auditors
27	Financial Data Schedule

EXHIBIT
NUMBER

DESCRIPTION

99.1 Press Release Regarding Judgment against Seagate Technology, Inc. in favor of Amstrad plc by the English Court(14)

* New exhibit filed with this Report.

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

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

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

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

(3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 33-51725) as filed with the Securities and Exchange Commission on December 28, 1993.

(4) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 5, 1994.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1994.

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

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 16, 1995.

(8) Subject to confidentiality order dated November 21, 1988.

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

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

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

(12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.

(13) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.

(15) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.

(16) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.

(17) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 5, 1998.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 12, 1998.

(19) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1998.

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: DUSTON M. WILLIAMS

 Duston M. Williams
 Senior Vice President
 and Chief Financial Officer

Dated: September 1, 1998

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 1, 1998.

SIGNATURE -----	TITLE -----
CHARLES A. HAGGERTY ----- Charles A. Haggerty	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
DUSTON M. WILLIAMS ----- Duston M. Williams	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
JAMES A. ABRAHAMSON ----- James A. Abrahamson	Director
PETER D. BEHRENDT ----- Peter D. Behrendt	Director
I. M. BOOTH ----- I. M. Booth	Director
IRWIN FEDERMAN ----- Irwin Federman	Director
ANDRE R. HORN ----- Andre R. Horn	Director
ANNE O. KRUEGER ----- Anne O. Krueger	Director
THOMAS E. PARDUN ----- Thomas E. Pardun	Director

EXHIBIT INDEX

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10.21.1	The Company's Non-Employee Directors Stock-For-Fees Plan, Amended and Restated as of January 9, 1997(14)**
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10.38.2	Second Amendment to Revolving Credit and Term Loan Agreement, dated as of February 25, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.38.3	Third Amendment to Revolving Credit and Term Loan Agreement, dated as of June 26, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions named therein*
10.40	OEM Component Supply and Technology License Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation***
10.41	OEM Sales and Purchase Agreement, dated June 7, 1998, between Western Digital Corporation and IBM Corporation***

EXHIBIT
NUMBER

DESCRIPTION

EXHIBIT NUMBER	DESCRIPTION
21	Subsidiaries of the Company
23	Consent of Independent Auditors
27	Financial Data Schedule
99.1	Press Release Regarding Judgment against Seagate Technology, Inc. in favor of Amstrad plc by the English Court(14)

* New exhibit filed with this Report.

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

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

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

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

(3) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 33-51725) as filed with the Securities and Exchange Commission on December 28, 1993.

(4) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 5, 1994.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1994.

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

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 16, 1995.

(8) Subject to confidentiality order dated November 21, 1988.

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

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

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

(12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 10, 1997.

(13) Incorporated by reference to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 1997.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 9, 1997.

(15) Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 12, 1997.

(16) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.

(17) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on February 5, 1998.

(18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on May 12, 1998.

(19) Incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-52463) as filed with the Securities and Exchange Commission on May 12, 1998.

WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED
EMPLOYEE STOCK OPTION PLAN

1. Purpose. The purpose of this Western Digital Corporation Employee Stock Option Plan (the "Plan") is to further the growth and development of Western Digital Corporation (the "Company") and its subsidiaries by providing, through ownership of stock of the Company, an incentive to officers and other key employees who are in a position to contribute materially to the prosperity of the Company, to increase such persons' interest in the Company's welfare, to encourage them to continue their services to the Company or its subsidiaries, and to attract individuals of outstanding ability to enter the employment of the Company or its subsidiaries.

2. Incentive and Nonqualified Stock Options. Two types of options (referred to herein as "options" without distinction between such two types) may be granted under the Plan: options intended to qualify as incentive stock options ("Incentive Stock Options") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); and other options not specifically authorized or qualified for favorable income tax treatment by the Code ("Nonqualified Stock Options").

3. Administration.

3.1 Administration by Board. Subject to Section 3.2, the Plan shall be administered by the Board of Directors of the Company (the "Board"). Subject to the provisions of the Plan, the Board shall have authority to construe and interpret the Plan, to promulgate, amend, and rescind rules and regulations relating to its administration, from time to time to select from among the eligible employees (as determined pursuant to Section 4) of the Company and its subsidiaries those employees to whom options will be granted, to determine the timing and manner of the grant of the options, to determine the exercise price, the number of shares covered by and all of the terms of the options, to determine the duration and purpose of leaves of absence which may be granted to optionees without constituting termination of their employment for purposes of the Plan, and to make all of the determinations necessary or advisable for administration of the Plan. The interpretation and construction by the Board of any provision of the Plan, or of any grant or agreement issued and executed under the Plan, shall be final and binding upon all parties. No member of the Board shall be liable for any action or determination undertaken or made in good faith with respect to the Plan or any agreement executed pursuant to the Plan.

3.2 Administration by Committee. The Board may, in its sole discretion, delegate any or all of its administrative duties to a committee appointed by the Board (the "Committee") consisting of three Board members, each of whom, during such time as one or more persons eligible to receive options under the Plan is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") shall be disinterested within the meaning of Rule 16b-3 under the Exchange Act (or any successor rule, "Rule 16b-3") and shall qualify as "outside directors" as defined in the regulations under Code Section 162(m), provided, however, that the Board may from time to time increase the size of the Committee, and add additional members to, or remove members from, the Committee. The Committee shall act pursuant to a majority vote, or the written consent of a majority of its members, and minutes shall be kept of all of its meetings and copies thereof shall be provided to the Board. Subject to the provisions of the Plan and the directions of the Board, the Committee may establish and follow such rules and regulations for the conduct of its business as it may deem advisable. No member of the Committee shall be liable for any action or determination undertaken or made in good faith with respect to the Plan or any agreement executed pursuant to the Plan. The Board or the Committee, as the case may be, is sometimes referred to herein as the "Administrator."

4. Eligibility. Any employee (including any officer who is an employee) of the Company or any of its subsidiaries who does not own stock possessing more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations shall be eligible to receive a grant or grants of such options under the Plan; provided, however, that notwithstanding the foregoing, any employee of the Company who owns stock possessing more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations shall be eligible to receive a grant or grants of such options under the Plan if at the time such options are granted the option exercise price therefor is at least 110% of the Fair Market Value (as defined below) of the shares subject to the option and such option by its terms

is not exercisable after the expiration of five years from the date such option is granted. An employee may receive more than one option under the Plan. Notwithstanding the foregoing, no person who is a director of the Company shall be eligible to receive an option under the Plan unless the granting of such option shall be effected in such a manner as not to impair the Plan's qualification under Rule 16b-3.

5. Shares Subject to Options. The stock available for issuance upon exercise of stock options granted under the Plan shall be shares of the Company's authorized but unissued, or reacquired, Common Stock. The aggregate number of shares that may be issued after September 5, 1985, pursuant to exercise of options granted under the Plan shall not exceed 15,450,000 shares of Common Stock (subject to adjustment as provided herein). In the event that any outstanding option under the Plan for any reason expires or is terminated, the shares of Common Stock allocable to the unexercised portion of the option shall not count against the share limit set forth herein and shall again be available for issuance upon exercise of stock options granted under the Plan as if no option had been granted with respect to such shares.

6. Terms and Conditions of Options.

6.1 Grants of Options. Subject to the express provisions of the Plan, the Administrator shall from time to time in its discretion select those individuals to whom options shall be granted, and shall determine the terms of such options (which need not be identical) and the number of shares of Common Stock for which each may be exercised. Notwithstanding anything to the contrary herein, the number of shares of Common Stock with respect to which an option or options may be granted to any optionee in any one taxable year of the Company shall not exceed 400,000, subject to adjustment as provided herein (the "Maximum Annual Employee Grant"). Each option shall be subject to the terms and conditions of the Plan and such other terms and conditions established by the Administrator as are not inconsistent with the purpose and provisions of the Plan.

6.2 Agreements or Confirming Memos. Options granted under the Plan may but need not be evidenced by agreements (which need not be identical) in such form and containing such provisions consistent with the Plan as the Administrator shall from time to time approve. Options not documented by written agreement shall be memorialized by a written confirming memorandum stating the material terms of the option and provided to the option recipient. Each agreement or confirming memorandum shall specify whether the subject option is an Incentive Stock Option or a Nonqualified Stock Option.

6.3 Optionee's Employment. Each optionee shall agree to remain in the employ of, and to render services to, the Company or its subsidiaries for a period of one year from the date the option is granted, but neither the Company nor any of its subsidiaries shall be obligated to continue to employ the optionee for any period.

6.4 Option Exercise Price. The purchase price for the shares subject to any option shall be determined by the Administrator but shall not be less than 100% of the Fair Market Value of the shares of Common Stock of the Company on the date the option is granted. For purposes of the Plan, the "Fair Market Value" of any share of Common Stock of the Company at any date shall be (a) if the Common Stock is listed on an established stock exchange or exchanges, the last reported sale price per share on such date on the principal exchange on which it is traded, or if no sale was made on such date on such principal exchange, at the closing reported bid price on such date on such exchange, or (b) if the Common Stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the Common Stock in the over-the-counter market as quoted on the Nasdaq National Market on such date, or (c) if the Common Stock is not then listed on an exchange or quoted on the Nasdaq National Market, an amount determined in good faith by the Administrator.

6.5 Medium and Time of Payment. The purchase price for any shares purchased pursuant to exercise of an option granted under the Plan shall be paid in full upon exercise of the option in cash or such other consideration as the Administrator may deem acceptable, including without limitation securities of the Company (delivered by or on behalf of the person exercising the option or retained by the Company from the stock otherwise issuable upon exercise and valued at Fair Market Value as of the exercise date), provided, however, that the Administrator may, in the exercise of its discretion, allow exercise of an option in a broker-assisted or similar transaction in which the exercise price is not received by the Company until promptly after exercise. Shares of Common Stock transferred to the Company upon exercise of an option shall not increase the number of shares available for issuance upon exercise of options granted under the Plan. Notwithstanding the foregoing, the Company may extend and maintain, or arrange for the extension

and maintenance of, credit to any optionee to finance the optionee's purchase of shares pursuant to exercise of any option, on such terms as may be approved by the Administrator, subject to applicable regulations of the Federal Reserve Board and any other laws or regulations in effect at the time such credit is extended.

6.6 Option Period and Vesting. Subject to Section 6.14, options granted under the Plan shall vest and may be exercised as determined by the Administrator, except that no option may vest and become exercisable at any time prior to six months from the date the option is granted. Exercise of options after termination of the optionee's employment shall be subject to Sections 6.13 and 6.14. Each option granted hereunder and all rights or obligations under such option shall expire on such date as shall be determined by the Administrator, but not later than ten years after the date the option is granted, or five years after the date of grant in the case of an option recipient who at the time of grant owns more than 10% of the total combined voting power of all outstanding shares of all classes of stock of the Company or any of its parent or subsidiary corporations, and shall be subject to earlier termination as herein provided.

6.7 Exercise of Options. To the extent that an optionee has the right to exercise an option, the option may be exercised from time to time by written notice to the Company stating the number of shares being purchased and accompanied by payment in full of the purchase price for such shares, except that in no event shall the Company be required to issue fractional shares upon the exercise of an option, and the Administrator may, in its discretion, require that any exercise of an option be for at least 100 shares or, if less, the total number of shares for which the option is then exercisable. Any certificate(s) for outstanding securities of the Company used to pay the purchase price shall be accompanied by stock power(s) duly endorsed in blank by the registered holder of the certificate(s). In the event the certificate(s) tendered by the optionee in such payment cover more shares than are required for such payment, the certificate(s) shall also be accompanied by instructions from the optionee to the Company's transfer agent with respect to disposition of the balance of the securities covered thereby. Notwithstanding any other provision of this Plan, the Administrator may impose such conditions upon the exercise of options (including, without limitation, conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements, including without limitation Rule 16b-3, other relevant securities laws and rules, and any applicable section of or rule under the Code. Whenever shares of stock are to be issued upon exercise of an option granted under the Plan or subsequently transferred, the Administrator shall have the right to require the optionee or transferor to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The Administrator may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of securities of the Company or by withholding a portion of the stock otherwise issuable upon exercise of an option.

6.8 Nonassignability. No option granted under the Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, or (ii) subject to the final sentence of this Section 6.8, upon dissolution of marriage pursuant to a property settlement or domestic relations order, or (iii) as permitted on a case-by-case basis in the discretion of, and subject to such conditions as may be imposed by, the Administrator to permit transfers to immediate family members, family trusts or family foundations of the grantee under circumstances that would not adversely affect the interests of the Company. During the lifetime of an optionee, an option granted to him or her shall be exercisable only by the optionee (or the optionee's permitted transferee) or his or her guardian or legal representative. Notwithstanding the foregoing, Incentive Stock Options may not be assigned or transferred in violation of Section 422(b)(5) of the Code (or any successor provision) or the Treasury Regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

6.9 Limit on Incentive Stock Options. Subject to Section 12.1, the aggregate Fair Market Value (determined as of the time the option is granted) of the stock for which Incentive Stock Options granted to any one employee under all stock option plans of the Company and its parent and subsidiary corporations first become exercisable during any calendar year after December 31, 1986 shall not exceed \$100,000.

6.10 Restriction on Issuance of Shares. The issuance of options and shares shall be subject to compliance with all of the applicable requirements of law with respect to the issuance and sale of securities, including, without limitation, any required qualification under the California Corporate Securities Law of 1968, as amended.

6.11 Investment Representation. Any optionee may be required, as a condition of issuance of shares covered by his or her option, to represent that the shares to be acquired pursuant to exercise of the option will be

acquired for investment and without a view to distribution thereof; and in such case, the Company may place a legend on the certificate evidencing the shares reflecting the fact that they were acquired for investment and cannot be sold or transferred unless registered under the Securities Act of 1933, as amended, or unless counsel for the Company is satisfied that the circumstances of the proposed transfer do not require such registration, and in addition, the Company may issue stop transfer instructions to the transfer agent of the Company's securities restricting the transfer of such shares.

6.12 Rights as a Shareholder or Employee. An optionee or transferee of an option shall have no rights as a shareholder of the Company with respect to any shares covered by any option until (i) the Company has received all amounts payable in connection with the exercise of the option, including the exercise price and any amounts required by the Company to satisfy tax withholding requirements, and (ii) a share certificate for such shares has been issued. No adjustment shall be made for dividends (ordinary or extraordinary, whether cash, securities, or other property) or distributions or other rights for which the record date is prior to the date such share certificate is issued, except as provided in Section 6.15. Nothing in the Plan or in any grant or option agreement shall confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries or interfere in any way with any right of the Company or any subsidiary to terminate the optionee's employment at any time.

6.13 Termination of Employment, Disability, or Death. In general, subject to Section 6.14, options shall be exercisable by an optionee (or his or her permitted successor in interest) following such optionee's termination of employment only to the extent that such options had become exercisable on or prior to the date of such termination. In the event an optionee ceases to be an employee of the Company and its subsidiaries for any reason (other than cause) while still living, any option or unexercised portion thereof granted to the optionee may, to the extent such option was exercisable by the optionee on or prior to the date he or she ceased to be an employee (or is accelerated pursuant to Section 6.14 to a date within three months of termination of employment), be exercised by the optionee within three months of the date on which he or she ceased to be an employee, but in any event not later than the date of expiration of the option. In the event of the death or disability (as defined in Section 105(d)(4) of the Code) of the optionee while he or she is an employee of the Company or any of its subsidiaries or within not more than three months of the date on which he or she ceased to be an employee for any reason other than cause, any option or unexercised portion thereof granted to the optionee may, to the extent such option was exercisable by the optionee on or prior to the date of death or disability (or is accelerated pursuant to Section 6.14 to a date within the period during which such option may be exercised as set forth below), be exercised by the optionee or, if the optionee is then deceased or incapacitated, by the optionee's personal representatives, heirs, or legatees at any time prior to the later of (i) one year from the date on which the optionee ceased to be an employee or (ii) the latest date the option could have been exercised by the optionee if not disabled or dead, but in any event, not later than the date of expiration of the option. Notwithstanding the foregoing, however, if an optionee's employment with the Company and its subsidiaries is terminated for cause, as determined by the Administrator in its sole discretion, all options held by such optionee shall expire on the date of termination of employment and thereafter shall not be exercisable in whole or in part.

6.14 Modification, Extension, and Renewal of Options; Alteration of Vesting and Exercise Periods. Subject to the terms and conditions and within the specific limitations of the Plan, the Administrator may modify, extend, or renew outstanding options granted under the Plan, accept the surrender of outstanding options (to the extent not theretofore exercised), and authorize the granting of new options in substitution therefor (to the extent not theretofore exercised) except that no such modification, extension or renewal shall result in a reduction in the exercise price of such option. Without limitation of the foregoing and notwithstanding anything in this Plan to the contrary, the Administrator may at any time and from time to time in its discretion (i) designate shorter or longer periods than specified herein or in any particular option grant or agreement following the termination of an optionee's employment with the Company or any of its subsidiaries or the optionee's death or disability during which the optionee may exercise options, provided, however, that any shorter periods determined by the Administrator shall be effective only if determined at the time of the grant of the affected option or if such shorter period is agreed to in writing by the optionee, and any longer periods may not extend beyond the original termination date of the affected option; (ii) subject to the six-month minimum vesting period described in Section 6.6, accelerate vesting of an option in whole or part by increasing the number of shares purchasable at any particular time, provided that no such acceleration shall increase the total number of shares for which the option may be exercised; and (iii) extend the period after death or disability or termination of employment during which vesting of all or any portion of any options that had not become exercisable on or prior to the date thereof may occur. Notwithstanding the foregoing, no option shall be modified in such a manner

as to impair any rights of the optionee under the option, or to cause an Incentive Stock Option to cease to qualify as such, without the consent of the optionee.

6.15 Recapitalization or Reorganization of the Company. Except as otherwise provided herein, appropriate and proportionate adjustments shall be made in the number and class of shares subject to the Plan, the Maximum Annual Employee Grant, the option rights granted under the Plan, and the exercise price of such option rights, in the event of a stock dividend (but only on Common Stock), stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, separation, or like change in the capital structure of the Company affecting the Common Stock of the Company. In the event of a liquidation of the Company, or a merger, reorganization, or consolidation of the Company with any other corporation in which the Company is not the surviving corporation or the Company becomes a wholly-owned subsidiary of another corporation, any unexercised options theretofore granted under the Plan shall be deemed canceled unless the surviving corporation in any such merger, reorganization, or consolidation elects to assume the options under the Plan or to issue substitute options in place thereof; provided, however, that, notwithstanding the foregoing, if such options would otherwise be canceled in accordance with the foregoing, the optionee shall have the right, exercisable during a ten-day period ending on the fifth day prior to such liquidation, merger, reorganization, or consolidation, to exercise the optionee's option in whole or in part without regard to any installment exercise provisions in the optionee's option agreement. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Administrator, the determination of which in that respect shall be final, binding, and conclusive, provided that an Incentive Stock Option shall not without the consent of the optionee be adjusted in a manner that causes the option to fail to continue to qualify as an Incentive Stock Option.

7. Termination or Amendment of Plan. The Board or the Committee may at any time or from time to time suspend, terminate or amend the Plan; provided that, without approval of the shareholders of the Company, there shall be, except as specifically permitted by the Plan, no increase in the total number of shares issuable upon exercise of options granted under the Plan, no change in the class of persons eligible to receive options granted under the Plan, and no extension of the latest date upon which options may be granted under the Plan; and provided further that, without the consent of the optionee, no amendment may adversely affect any then outstanding option or any unexercised portion thereof without the consent of the holder of such option.

8. Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee, the members of the Board or the Committee administering the Plan shall be indemnified by the Company against reasonable expenses, including attorney's fees, actually and necessarily incurred in connection with the defense of any action, suit, or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any action, suit, or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit, or proceeding that such member is liable for negligence or misconduct in the performance of his or her duties, provided that within 60 days after institution of any such action, suit, or proceeding, the member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

9. 1978 Nonqualified Stock Option Plan. The Plan as set forth herein constitutes an amendment and restatement of the Company's 1978 Nonqualified Stock Option Plan which was adopted in 1978. The Administrator may, in its discretion, authorize the conversion, to the fullest extent permitted by law, of Nonqualified Stock Options granted under the 1978 Nonqualified Stock Option Plan prior to such amendment to Incentive Stock Options under this Plan, as so amended. Any such options converted to Incentive Stock Options shall be treated as Incentive Stock Options for all purposes under the Plan; provided, however, that none of the terms or conditions of any of such options, including, but not limited to, the exercise price, the term of the option, and the time(s) within which the option may be exercised, shall be altered or amended by reason of such conversion.

10. Options Granted Prior to Amendment and Restatement. The Plan, as amended and restated from time to time, shall, in the discretion of the Administrator, apply to and govern options granted under the Plan prior to the date of any such amendment or restatement, subject to the consent of any holder of an option who would be disadvantaged by application to such option of the Plan as amended and restated after the grant of such option.

11. Term of Plan. Unless sooner terminated by the Board or the Committee in its sole discretion, the Plan will expire on November 10, 2004 (the "Termination Date"). Options may be granted under the Plan until midnight on the Termination Date, whereupon the Plan shall terminate. No options may be granted during any suspension of the Plan or after its termination. Notwithstanding the foregoing, each option properly granted under the Plan shall remain in effect until such option has been exercised or terminated in accordance with its terms and the terms of the Plan.

12. Miscellaneous.

12.1 Plan Provisions Regarding Incentive Stock Options. Options originally granted as Incentive Stock Options but that subsequently become Nonqualified Stock Options need not satisfy any requirements of the Plan applicable to Incentive Stock Options.

12.2 Other Compensation Plans. The adoption of this Plan shall not affect any other stock option, incentive, or compensation plans in effect for the Company or any of its subsidiaries, and the Plan shall not preclude the Company or any of its subsidiaries from establishing any other forms of incentive compensation for employees, directors, or advisors of the Company or any of its subsidiaries.

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As amended (ss. 5, 6.4, 6.14) and restated 11/14/96

Amended 03/20/97: (Section 6.8)

2-for-1 Stock Split/Dividend 05/20/97: Doubled authorized shares to 30,900,000

Amended 11/13/97: (Section 3.2)

WESTERN DIGITAL CORPORATION
1993 EMPLOYEE STOCK PURCHASE PLAN

The Western Digital Corporation 1993 Employee Stock Purchase Plan (the "Plan") shall be established and operated in accordance with the following terms and provisions.

1. Definitions.

As used in the Plan the following terms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Committee" means the committee appointed by the Board to administer the Plan as described in Section 4 below.

(d) "Common Stock" means the Common Stock, \$0.01 par value, of the Company.

(e) "Company" means Western Digital Corporation, a Delaware corporation.

(f) "Continuous Employment" means the absence of any interruption or termination of service as an Employee with the Company and/or its Participating Subsidiaries. Continuous Employment shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) "Eligible Compensation" means, with respect to each Participant for each pay period, the full salary and wages paid to such Participant by the Company or a Participating Subsidiary, including commissions, bonuses (to the extent not excluded below), overtime pay and shift differentials. Except as otherwise determined by the Committee, "Eligible Compensation" does not include

(i) any amounts contributed by the Company or a Participating Subsidiary to any pension plan or plan of deferred compensation,

(ii) any automobile or relocation allowances (or reimbursement for any such expenses),

(iii) any amounts paid as a starting bonus or finder's fee,

(iv) any amounts realized from the exercise of qualified or non-qualified stock options, or

(v) any amounts paid by the Company or a Participating Subsidiary for other fringe benefits, such as health and welfare, hospitalization and group life insurance benefits, or perquisites, or paid in lieu of such benefits, such as cash-out of credits generated under a plan qualified under Code Section 125.

(h) "Eligible Employee" means an Employee who is

(i) customarily employed for at least twenty (20) hours per week and more than five months in a calendar year, and

(ii) eligible to participate in the Plan as described in Section 5 below.

If such person is (a) an Employee due to any classification or reclassification of the person as an employee or common-law employee of the Company or one of its Participating Subsidiaries by reason of action taken by any tax or other governmental authority, or (b) an Employee who has a written employment agreement providing that the Employee shall not participate in the Plan until after two (2) years of Continuous Employment, then such Employee must be employed for more than two (2) years by the Company or one of its Participating Subsidiaries as well as meet the criteria set forth above in subsections (i) and (ii) in order to be an Eligible Employee.

(i) "Employee" means each person currently employed by the Company or one of its Participating Subsidiaries. It shall not include any person who is recorded on the books and records of the Company or one of its

Participating Subsidiaries as an independent contractor or consultant or a worker provided by a temporary staffing agency.

(j) "Enrollment Date" means the first day of each Offering Period.

(k) "Exercise Date" means each July 31 and January 31 during each Offering Period.

(l) "Exercise Period" means a period commencing on February 1 and terminating on the following July 31 or commencing on August 1 and terminating on the following January 31.

(m) "Exercise Price" means the price per share of shares offered in a given Offering Period determined as provided in Section 10 below.

(n) "Fair Market Value" means, with respect to a share of Common Stock as of any Enrollment Date or Exercise Date, the closing price of such Common Stock on the New York Stock Exchange on such date, as reported in The Wall Street Journal. In the event that such a closing price is not available for an Enrollment Date or an Exercise Date, the Fair Market Value of a share of Common Stock on such date shall be the closing price of a share of the Common Stock on the New York Stock Exchange on the last business day prior to such date or such other amount as may be determined by the Committee by any fair and reasonable means.

(o) "Offering Period" means a period of twenty-four (24) months during which an option granted pursuant to the Plan may be exercised. A new Offering Period shall begin on each February 1 and August 1.

(p) "Participant" means an Eligible Employee who has elected to participate in the Plan by filing an enrollment agreement with the Company as provided in Section 7 below.

(q) "Participating Subsidiary" means any Subsidiary other than a Subsidiary excluded from participation in the Plan by the Committee, in its sole discretion.

(r) "Plan" means this Western Digital Corporation 1993 Employee Stock Purchase Plan.

(s) "Subsidiary" means any corporation, domestic or foreign, of which the Company owns, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests and that otherwise qualifies as a "subsidiary corporation" within the meaning of Section 424(f) of the Code or any successor thereto.

2. Purpose of the Plan.

The purpose of the Plan is to provide an incentive for present and future Employees of the Company and its Participating Subsidiaries to acquire a proprietary interest (or increase an existing proprietary interest) in the Company through the purchase of Common Stock. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986. Accordingly, the provisions of the Plan shall be administered, interpreted and construed in a manner consistent with the requirements of that section of the Code.

3. Shares Reserved for the Plan.

There shall be reserved for issuance and purchase by Participants under the Plan an aggregate of 7,000,000 shares of Common Stock, subject to adjustment as provided in Section 15 below. Shares of Common Stock subject to the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases. If and to the extent that any right to purchase reserved shares shall not be exercised by any Participant for any reason or if such right to purchase shall terminate as provided herein, shares that have not been so purchased hereunder shall again become available for the purposes of the Plan unless the Plan shall have been terminated, but all shares sold under the Plan, regardless of source, shall be counted against the limitation set forth above.

4. Administration of the Plan.

(a) The Plan shall be administered by a Committee appointed by, and which shall serve at the pleasure of, the Board. The Committee shall consist of not less than 3 members of the Board who are not officers or employees of the Company or of any of its Subsidiaries and who are disinterested persons within the terms of Rule 16b-3 promulgated under the Securities Exchange Act of 1934. The Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, all of which actions and determinations shall be final, conclusive and binding on all persons.

(b) The Committee may request advice or assistance or employ such other persons as it in its absolute discretion deems necessary or appropriate for the proper administration of the Plan, including, but not limited to employing a brokerage firm, bank or other financial institution to assist in the purchase of shares, delivery of reports or other administrative aspects of the Plan.

5. Eligibility to Participate in the Plan.

Subject to limitations imposed by Section 423(b) of the Code, any Employee who is employed by the Company or a Participating Subsidiary on an Enrollment Date shall be eligible to participate in the Plan for the Offering Period beginning on that Enrollment Date.

6. Offering Periods.

The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on each February 1 and August 1 during the term of the Plan. The first such Offering Period shall commence on February 1, 1994, or as otherwise determined by the Committee. The Committee shall have the power to change the duration of Offering Periods with respect to future offerings without shareholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

7. Election to Participate in the Plan.

(a) Each Eligible Employee may elect to participate in the Plan by completing an enrollment agreement in the form provided by the Company and filing such enrollment agreement with the Company prior to the applicable Enrollment Date, unless another time for filing the enrollment form is set by the Committee for all Eligible Employees with respect to a given Offering Period. An Eligible Employee may participate in an Offering Period only if, as of the Enrollment Date of such Offering Period, such Eligible Employee is not participating in any prior Offering Period which is continuing at the time of such proposed enrollment.

(b) Payroll deductions for a Participant shall commence on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 12.

(c) Unless a Participant elects otherwise prior to the Enrollment Date of the immediately succeeding Offering Period, an Eligible Employee who is participating in an Offering Period as of the last Exercise Date of such Offering Period (the "Prior Offering Period") shall be deemed (i) to have elected to participate in the immediately succeeding Offering Period and (ii) to have authorized the same payroll deduction for such immediately succeeding Offering Period as was in effect for such Participant immediately prior to the expiration or termination of the Prior Offering Period.

(d) The Committee, in its discretion, may terminate the participation of all Participants in any Offering Period as of the last day of any Exercise Period (a "Termination Date") and enroll such Participants in the new Offering Period commencing immediately following such Termination Date if the Exercise Price determined as of the Enrollment Date for such new Offering Period is lower than the Exercise Price determined as of the Enrollment Date of the Offering Period for which the Participants' participation is being terminated. In such event, each of such Participants shall be deemed for purposes of this Plan (i) to have elected to participate in such new Offering Period and

(ii) to have authorized the same payroll deduction for such new Offering Period as was in effect for such Participant immediately prior to the Termination Date.

8. Payroll Deductions.

(a) All Participant contributions to the Plan shall be made only by payroll deductions. At the time a Participant files the enrollment agreement with respect to an Offering Period, the Participant shall authorize payroll deductions to be made on each payroll date during the Offering Period in an amount of from 1% to 10% of the Eligible Compensation which the Participant receives on each payroll date during such Offering Period. The amount of such payroll deductions shall be a whole percentage (i.e., 1%, 2%, 3%, etc.) of the Participant's Eligible Compensation.

(b) All payroll deductions made for a Participant shall be deposited in the Company's general corporate account and shall be credited to the Participant's account under the Plan. No interest shall accrue or be credited with respect to the payroll deductions of a Participant under the Plan. A Participant may not make any additional payments into such account. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

(c) A Participant may discontinue participation in the Plan as provided in Section 12. A Participant may at any time during an Offering Period (but no more than four times in any calendar year) reduce or increase (subject to the limitations of Section 8(a) above) the rate of his or her payroll deductions by completing and filing with the Company a change notice in the form provided by the Company. Any such reduction in the rate of a Participant's payroll deductions shall be effective as of the pay period specified by the Participant in the Participant's change notice, but in no event sooner than the first pay period ending more than fifteen (15) days after the Participant files the change notice with the Company. Any such increase in the rate of a Participant's payroll deductions shall be effective as of the first date of the next Exercise Period within such Offering Period.

9. Grant of Options.

(a) On the Enrollment Date of each Offering Period, subject to the limitations set forth in Sections 3 and 9(b) hereof, each Participant shall be granted an option to purchase on each Exercise Date during such Offering Period (at the Exercise Price determined as provided in Section 10 below) up to a number of shares of the Company's Common Stock determined by dividing such Participant's payroll deductions accumulated during the Exercise Period ending on such Exercise Date by 85% of the fair market value of a share of the Company's Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower, provided that the number of shares subject to the option shall not exceed five (5) times the number of shares determined by dividing 10% of the Participant's Eligible Compensation over the Offering Period (determined based upon the Eligible Employee's rate of Eligible Compensation in effect as of the Enrollment Date) by 85% of the Fair Market Value of a share of the Company's Common Stock on the Enrollment Date.

(b) Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted an option under the Plan (i) if, immediately after the grant, such Participant (or any other person whose stock would be attributed to such Participant pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company, or (ii) which permits such Participant's rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries to accrue at a rate which exceeds \$25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

10. Exercise Price.

The Exercise Price of each of the shares offered in a given Offering Period shall be the lower of: (i) 85% of the Fair Market Value of a share of the Common Stock of the Company on the Enrollment Date; or (ii) 85% of the Fair Market Value of a share of the Common Stock of the Company on the applicable Exercise Date.

11. Exercise of Options.

Unless a Participant withdraws from the Plan as provided in Section 12, the Participant's option for the purchase of shares will be exercised automatically on each Exercise Date of the Offering Period, and the maximum number of full shares subject to option will be purchased for the Participant at the applicable Exercise Price with the accumulated payroll deductions in the Participant's account. Any amount remaining in the Participant's account after an Exercise Date shall be held in the account until the next Exercise Date in such Offering Period, unless the Offering Period has been over-subscribed or has terminated with such Exercise Date, in which event such amount shall be refunded to the Participant.

12. Withdrawal; Termination of Employment.

(a) A Participant may withdraw all but not less than all of the payroll deductions credited to the Participant's account under the Plan at any time by giving written notice to the Company. All of the Participant's payroll deductions credited to the Participant's account will be paid to him promptly after receipt of the Participant's notice of withdrawal, the Participant's participation in the Plan will be automatically terminated, and no further payroll deductions for the purchase of shares will be made. Payroll deductions will not resume on behalf of a Participant who has withdrawn from the Plan unless written notice is delivered to the Company within the open enrollment period preceding the commencement of an Exercise Period directing the Company to resume payroll deductions.

(b) Upon termination of the Participant's Continuous Employment prior to the Exercise Date of an Offering Period for any reason, including retirement or death, the payroll deductions credited to the Participant's account will be returned to the Participant or, in the case of death, to the Participant's estate, and the Participant's options to purchase shares under the Plan will be automatically terminated.

(c) In the event a Participant fails to maintain Continuous Employment for at least twenty (20) hours per week during an Offering Period, the Participant will be deemed to have elected to withdraw from the Plan, the payroll deductions credited to the Participant's account will be returned to the Participant, and the Participant's options to purchase shares under the Plan will be terminated.

(d) A Participant's withdrawal from an Offering Period will not have any effect upon the Participant's eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

13. Transferability.

Options to purchase Common Stock granted under the Plan are not transferable by a Participant other than by will or the laws of descent and distribution and are exercisable during a Participant's lifetime only by the Participant.

14. Reports.

Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to Participants semi-annually promptly following each Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

15. Adjustments Upon Changes in Capitalization.

(a) If the outstanding shares of Common Stock are increased or decreased, or are changed into or are exchanged for a different number or kind of shares, as a result of one or more reorganizations, restructurings, recapitalizations, reclassifications, stock splits, reverse stock splits, stock dividends or the like, appropriate adjustment shall be made in the number and/or kind of shares, and the per-share option price thereof, which may be issued in the aggregate and to any Participant upon exercise of options granted under the Plan.

(b) In the event of the proposed dissolution or liquidation of the Company, each Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Committee determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the Participant shall have the right to exercise the option as to all of the optioned stock, including shares as to which the option would not otherwise be exercisable. If the Committee makes an option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Committee shall notify the Participant that the option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the option will terminate upon the expiration of such period.

(c) In all cases, the Committee shall have full discretion to exercise any of the powers and authority provided under this Section 15, and the Committee's actions hereunder shall be final and binding on all Participants. No fractional shares of stock shall be issued under the Plan pursuant to any adjustment authorized under the provisions of this Section 15.

16. Amendment of the Plan.

The Board may at any time, or from time to time, amend the Plan in any respect; provided, however, that the Plan may not be amended in any way that will cause rights issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in Section 423 of the Code or any successor thereto, including, without limitation, shareholder approval if required.

17. Termination of the Plan.

The Plan and all rights of Employees hereunder shall terminate:

(a) on the Exercise Date that Participants become entitled to purchase a number of shares greater than the number of reserved shares remaining available for purchase under the Plan; or

(b) at any time, at the discretion of the Board.

In the event that the Plan terminates under circumstances described in Section 17(a) above, reserved shares remaining as of the termination date shall be sold to Participants on a pro rata basis.

18. Notices.

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

19. Shareholder Approval.

Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon.

20. Conditions Upon Issuance of Shares.

(a) The Plan, the grant and exercise of options to purchase shares of Common Stock under the Plan, and the Company's obligation to sell and deliver shares upon the exercise of options to purchase shares shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required.

(b) The Company may make such provisions as it deems appropriate for withholding by the Company pursuant to federal or state income tax laws of such amounts as the Company determines it is required to withhold in connection with the purchase or sale by a Participant of any Common Stock acquired pursuant to the Plan. The Company may require a Participant to satisfy any relevant tax requirements before authorizing any issuance of Common Stock to such Participant.

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Amended 11/14/96: Authorized shares increased from 1,750,000 to 2,500,000.
Amended 03/11/97: Par value reduced from \$.10 to \$.01.
2-for-1 Stock Split/Dividend 05/29/97: Doubled authorized shares to 5,000,000
Amended 07/10/97: 15(a) re antidilution provisions
Amended 11/13/97: Authorized shares increased from 5,000,000 to 7,000,000; 1(h)
and 1(i) eligible employees

AMENDMENT NO. 1 TO THE
WESTERN DIGITAL CORPORATION
EXECUTIVE BONUS PLAN

This Amendment No. 1 (the "Amendment") to the Western Digital Corporation Executive Bonus Plan (the "Plan") is made this 13th day of November, 1997 by Western Digital Corporation (the "Company").

WHEREAS, the Company's Board of Directors deems it to be in the best interests of the Company to amend the Plan to change the age of retirement to conform to the definition in the Company's Deferred Compensation Plan; and

WHEREAS, the Company has the right to amend the Plan by action of its Board of Directors;

NOW, THEREFORE, the Plan is amended as follows:

1. Section 1.21 shall be amended to read as follows:

"Retirement," "Retires" or "Retired" shall mean a Participant ceasing to be employed by all Employers for any reason other than death, Disability or Termination of Employment or on or after a Participant attains the age of fifty-five (55).

This Amendment shall be effective as of November 13, 1997.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer as of this 13th day of November, 1997.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL A. CORNELIUS

Michael A. Cornelius
Vice President, Law & Administration
Secretary

FIFTH AMENDMENT TO THE
WESTERN DIGITAL CORPORATION
RETIREMENT SAVINGS AND PROFIT SHARING PLAN

This Fifth Amendment (the "Amendment") to the Western Digital Corporation Retirement Savings and Profit Sharing Plan (the "Plan") is made this 13th day of November 1997 by Western Digital Corporation (the "Company"), the sponsoring employer of the Plan.

WHEREAS, the terms of the Plan are set forth in an amended and restated Plan document, dated June 23, 1995, as thereafter amended by the First Amendment dated June 30, 1995, by the Second Amendment dated March 27, 1996, by the Third Amendment dated January 9, 1997 and by the Fourth Amendment dated March 20, 1997; and

WHEREAS, the Company has reserved the right to amend the Plan by action of its Board of Directors; and

WHEREAS, it is deemed desirable to amend the Plan in certain respects;

NOW, THEREFORE, the Plan is amended as follows:

1. Section 2.14 "Eligible Employee" shall be amended to read in its entirety as follows:

2.14 ELIGIBLE EMPLOYEE

- 2.14.1 "Eligible Employee" shall mean any Employee of an Employer who is paid from the Employer's United States payroll, except as provided in Subsection 2.14.2 below.
- 2.14.2 The term "Eligible Employee" shall not include any person in one or more of the following categories:
 - 2.14.2.1 Any person who is covered by a collective bargaining agreement to which an Employer is a party, unless the collective bargaining agreement provides for coverage under this Plan.
 - 2.14.2.2 Any non-resident alien who receives no earned income (within the meaning of Code Section 911(d)(2)) from Employer that constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)).
 - 2.14.2.3 Any person who is a "leased employee" within the meaning of Code Section 414(n).

- 2.14.2.4 Any person who is an "employee" within the meaning of Code Section 401(c)(3).
 - 2.14.2.5 Any person who is recorded on the books and records of an Employer or an Affiliated Company as an independent contractor or consultant, a worker provided by a temporary staffing agency, a temporary employee, or an individual with respect to whom a written agreement governing the relationship between such person and an Employer or Affiliated Company provides in substance that such person shall not be an Eligible Employee hereunder.
- 2.14.3 The preceding provisions of this Section 2.14 shall be given effect notwithstanding any classification or reclassification of a person as an employee or common law employee of an Employer or Affiliated Company or as a member of any other category of person not excluded under the preceding provisions of this Section 2.14 by reason of action taken by any tax, or other governmental authority. In the event that a person rendering services to an Employer or to an Affiliated Company in an excluded category is classified or reclassified by reason of action taken by any tax, or other governmental authority, or by an Employer or Affiliated Company, such individual shall continue to be excluded under this Plan unless specifically included hereunder by the terms of an amendment to this Plan or by the terms of a written instrument executed by such person and an Employer.
- 2.14.4 The categories of excluded persons described above in this Section 2.14 are not mutually exclusive, it being contemplated that certain categories described above may include persons in one or more other categories, with the result that an individual may be excluded under more than one category set forth herein.

This Amendment shall be effective as of June 23, 1995.

2. Section 2.15 "Employee" shall be amended to read in its entirety as follows:

2.15 EMPLOYEE

- 2.15.1 "Employee" shall mean each person currently employed in any capacity by an Employer or Affiliated Company, any portion of whose Compensation paid by an Employer or an Affiliated Company is subject to withholding

of income tax and/or for whom Social Security contributions are made by an Employer or an Affiliated Company.

2.15.2 "Employee" shall include a person deemed to be employed by an Employer or an Affiliated Company, pursuant to Code Section 414(n). Notwithstanding the foregoing, if such leased employees constitute less than twenty percent (20%) of the Company's non-highly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the term "Employee" shall not include those leased employees covered by a plan described in Section 414(n)(5) of the Code unless otherwise provided by the terms of the Plan.

2.15.3 Although Eligible Employees are the only class of individuals eligible to participate in this Plan, the term "Employee" is used to refer to persons employed in a non-eligible Employee capacity as well as Eligible Employee category. Thus, those provisions of this Plan that are not limited to Eligible Employees, such as those relating to certain service computation rules, apply to both Eligible and non-Eligible Employees.

This Amendment shall be effective as of June 23, 1995.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly authorized officer on this 13th day of November 1997.

WESTERN DIGITAL CORPORATION

By: /s/ MICHAEL A. CORNELIUS

Michael A. Cornelius
Vice President, Law & Administration,
Secretary

SECOND AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

Second Amendment dated as of February 25, 1998 to Revolving Credit and Term Loan Agreement (the "Second Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement") by and among the Borrower, the Banks and BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent"). Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

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

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

SECTION 1. PREAMBLE TO THE CREDIT AGREEMENT. The Preamble to the Credit Agreement is hereby amended by deleting the first paragraph thereof in its entirety and restating it as follows:

This REVOLVING CREDIT AND TERM LOAN AGREEMENT is made as of January 28, 1998, by and among (a) WESTERN DIGITAL CORPORATION (the "Borrower"), a Delaware corporation having its principal place of business at 8105 Irvine Center Drive, Irvine, California 92718, (b) BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 hereto, (c) BANKBOSTON, N.A., as administrative agent for itself and such other lending institutions (the "Agent"), (d) NATIONSBANK OF TEXAS, N.A., as syndication agent for itself and such other lending institutions (the "Syndication Agent"), (e) THE BANK OF NOVA SCOTIA, as documentation agent for itself and such other lending institutions (the "Documentation Agent"), and (f) ABN AMRO BANK, DEUTSCHE FINANCIAL SERVICES CORPORATION, THE CIT GROUP/BUSINESS CREDIT, INC., THE FUJI BANK, LIMITED, IBJ SCHRODER BUSINESS CREDIT CORPORATION AND KEY BANK as co-agents for the lending institutions (the "Co-Agents").

SECTION 2. AMENDMENT TO SECTION 1 OF THE CREDIT AGREEMENT. Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) the definition of "Borrowing Base" is hereby amended by deleting the words "Accounts Receivable such Foreign Subsidiary" which appears in subparagraph (c) thereof and substituting in place thereof the words "Accounts Receivable of such Foreign Subsidiary"; and

(b) the definition of "Interest Payment Date" is hereby amended by inserting immediately after the words "(b) as to any Eurodollar Rate Loan in respect of which the Interest Period is (i) 3 months or less, the last day of such Interest Period, and (ii) more than three (3) months, the date that is three (3) months from the first day of such Interest Period" the words "and, in addition, the last day of such Interest Period".

SECTION 3. LIMITED WAIVER OF SECTION 19.1 OF THE CREDIT AGREEMENT. The parties hereto hereby agree that upon the effectiveness of this Second Amendment the Banks, the Borrower and the Agent hereby agree to waive the requirement set forth in Section 19.1 of the Credit Agreement that such assignment contemplated by the Assignment and Acceptance dated as of February 25, 1998 by and among the Borrower, the Agent and the parties thereto (the "Assignment") not become effective until a date which is at least five (5) Business Days after the execution thereof. The parties hereto hereby acknowledge and agree that the Assignment shall become effective on the date of its execution and delivery to the Agent. Nothing contained herein shall be construed to grant any other waiver of any of the terms and conditions of the Credit Agreement, or the other Loan Documents (as defined in the Credit Agreement).

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

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

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

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

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

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

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

WESTERN DIGITAL CORPORATION

By: [SIG]

Title: Vice President, Taxes and
Treasurer

BANKBOSTON, N.A.

By:

Title:

RATIFICATION OF GUARANTY

The undersigned guarantor hereby acknowledges and consents to the foregoing Second Amendment as of February 25, 1998, and agrees that the Guaranty dated as of January 28, 1998 from the undersigned (the "Guarantor") in favor of the Agent and each of the Banks remains in full force and effect, and the Guarantor confirms and ratifies all of its obligations thereunder.

WESTERN DIGITAL ROCHESTER, INC.

By: /s/ WESTERN DIGITAL CORPORATION

Title: President

The undersigned each hereby accepts, by its signature below, the title set forth next to its name on the signature block hereto:

NATIONSBANK OF TEXAS, N.A.,
as Syndication Agent

By: /s/ SHARON ELLIS

Title: Vice President

THE BANK OF NOVA SCOTIA, as
Documentation Agent

By: _____
Title:

ABN AMRO BANK, as Co-Agent

By: _____
Title:

DEUTSCHE FINANCIAL SERVICES
CORPORATION, as Co-Agent

By: _____
Title:

THE CIT GROUP/ BUSINESS CREDIT, INC.
as Co-Agent

By: _____
Title:

THE FUJI BANK LIMITED, as Co-Agent

By: _____

Title:

IBJ SCHRODER BUSINESS CREDIT
CORPORATION, as Co-Agent

By: _____

Title:

KEY BANK, as Co-Agent

By: [SIG] _____

Title: Vice President

THIRD AMENDMENT
TO
REVOLVING CREDIT AND TERM LOAN AGREEMENT

Third Amendment dated as of June 26, 1998 to Revolving Credit and Term Loan Agreement (the "Third Amendment"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower") and BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (as hereinafter defined) (the "Banks"), amending certain provisions of the Revolving Credit and Term Loan Agreement dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement") by, and among the Borrower, the Banks and BankBoston, N.A. as agent for the Banks (in such capacity, the "Agent"). Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

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

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

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

(a) the definition of Applicable Margin is hereby amended by deleting such definition in its entirety and restating it as follows:

Applicable Margin. For each period commencing on an Adjustment Date through the date immediately preceding the next Adjustment Date (each a "Rate Adjustment Period"), the Applicable Margin shall be the applicable margin set forth below with respect to the Borrower's Liabilities to Worth Ratio as determined for the fiscal quarter of the Borrower ending on the last day of the fiscal quarter ended immediately prior to the first day of the applicable Rate Adjustment Period.

LEVEL	LIABILITIES TO WORTH RATIO	BASE RATE LOANS (BASIS POINTS)	EURODOLLAR RATE LOANS (BASIS POINTS)	COMMITMENT FEE RATE (BASIS POINTS)	LETTER OF CREDIT FEES (BASIS POINTS)
1	Less than or equal to 1.75:1.00	25	150	37.50	150

II	Greater than 1.75:1.00, but less than or equal to 2.00:1.00	50	175	50	175
III	Greater than 2.00:1.00, but less than or equal to 3.00:1.00	75	200	50	200
IV	Greater than 3.00:1.00	100	225	50	225

Notwithstanding the foregoing, (a) for Loans outstanding, Letter of Credit Fees payable and the Commitment Fee Rate during the period commencing on June 26, 1998 through the date immediately preceding the first Adjustment Date to occur after the last day of the first fiscal quarter of 1999, the Applicable Margin shall not be lower than Level III set forth above, and (b) if the Borrower fails to deliver any Compliance Certificate when required by Section 9.4(c) hereof then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the highest Applicable Margin set forth above.

(b) by inserting the following definitions in the appropriate alphabetical order:

Quick Ratio. With respect to the Borrower and its Subsidiaries at any time, the ratio, determined on a consolidated basis in accordance with generally accepted accounting principles, of (a) the remainder at such time of (i) the sum of (A) all cash of the Borrower and its Subsidiaries, (B) the current market value of all cash equivalents of the Borrower and its Subsidiaries and (C) all Accounts Receivable of the Borrower and its Subsidiaries (net of all reserves therefor) minus (ii) to the extent included in the foregoing sum, the sum of all cash, cash equivalents and Accounts Receivable of the Borrower and its Subsidiaries that are subject to a lien, security interest or other encumbrance or otherwise restricted, to (b) the sum of (i) all Consolidated Total Liabilities of the Borrower and its Subsidiaries that would be classified as current under generally accepted accounting principles at such time and (ii) without duplication, all outstanding Revolving Credit Loans plus the Maximum Drawing Amount of all issued and outstanding Letters of Credit plus all Unpaid Reimbursement Obligations, whether or not so classified.

Senior Funded Indebtedness. At any time of determination, the sum of (a) the outstanding amount of the Revolving Credit Loans plus, (b) the aggregate amount of all Unpaid Reimbursement Obligations, plus (c) the outstanding amount of the Term Loan, plus (d) the aggregate amount of all outstanding Capitalized Leases and Synthetic Leases (including without limitation the Permitted Synthetic Lease) incurred pursuant to Section 10.1(c) and (d) hereof, plus (e) the aggregate outstanding amount of all Indebtedness incurred pursuant to Section 10.1(e) hereof, plus (f) the aggregate amount of all outstanding Indebtedness incurred pursuant to Section 10.1(k) hereof.

SECTION 2. AMENDMENT TO SECTION 8 OF THE CREDIT AGREEMENT. Section 8.24 of the Credit Agreement is hereby amended by inserting immediately after the words "other than the Obligations" which appear in Section 8.24 the words "and the obligations of the Borrower arising under the Permitted Synthetic Lease."

SECTION 3. AMENDMENT TO SECTION 10 OF THE CREDIT AGREEMENT. Section 10 of the Credit Agreement is hereby amended as follows:

(a) Section 10.2(ix) of the Credit Agreement is hereby amended by inserting immediately after the words "real or personal property subject to" which appear in Section 10.2(ix) the words "or related to";

(b) Section 10.5.2. of the Credit Agreement is hereby amended by inserting immediately after the end of the first paragraph of Section 10.5.2. the following sentence: "For the avoidance of doubt, the groundlease of the Property by the Borrower to Lease Plan North America, Inc. pursuant to that certain Ground Lease Agreement dated after the date hereof shall not for purposes of this Credit Agreement constitute a disposition by the Borrower of its assets.";

(c) Section 10.9 of the Credit Agreement is hereby amended by inserting immediately after the words "other than the Indebtedness arising under this Credit Agreement and the other Loan Documents" the words "and Indebtedness of the Borrower arising under the Permitted Synthetic Lease and the documents, agreements and instruments to be executed in connection therewith."

SECTION 4. AMENDMENT TO SECTION 11 OF THE CREDIT AGREEMENT. Section 11 of the Credit Agreement is hereby amended by deleting Section 11 of the Credit Agreement in its entirety and restating it as follows:

11. FINANCIAL COVENANTS OF THE BORROWER.

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Bank has any obligation to make any Loans or the Agent has any obligation to issue, extend or renew any Letters of Credit:

11.1. PROFITABLE OPERATIONS. The Borrower will not permit Consolidated Net Operating Income for (a) the end of the fourth fiscal quarter of 1998 to be less than (\$155,000,000); (b) the end of the first fiscal quarter of 1999 to be less than (\$95,000,000); (c) the end of the second fiscal quarter of 1999 to be less than (\$65,000,000); (d) the end of the third fiscal quarter of 1999 to be less than (\$5,000,000); and (e) each fiscal quarter ending thereafter to be less than \$1.00.

11.2. FIXED CHARGE COVERAGE RATIO. The Borrower will not, as of the end of any fiscal quarter ending during any period described in the table set forth below, commencing with the fourth fiscal quarter of 1999, permit the ratio of (a) the sum of (i) EBITDA for the Reference Period ending on such date plus (ii)

Rental Obligations for the Reference Period ending on such date (without giving effect to the December 1997 Charge) to (b) the sum of (i) Consolidated Total Cash Interest Expense for the Reference Period ending on such date plus (ii) Rental Obligations for the Reference Period ending on such date, to be less than the ratio set forth opposite such period in such table:

PERIOD	RATIO
Fourth Fiscal Quarter 1999	1.30:1.00
Each fiscal quarter thereafter	3.00:1.00

11.3. MINIMUM QUICK RATIO. The Borrower will not at any time during any period set forth in the table below permit the Quick Ratio to be less than the ratio set forth opposite such period in such table:

PERIOD	RATIO
June __, 1998 - last day of the First Fiscal Quarter of 1999	1.00:1.00
First day of the Second Fiscal Quarter of 1999 - last day of the Second Fiscal Quarter of 2000	0.90:1.00
any time thereafter	1.00:1.00

11.4. LEVERAGE. The Borrower will not at any time during any period set forth in the table below permit the ratio of (a) Senior Funded Indebtedness to (b) the sum of (i) the aggregate amount of consolidated shareholders' equity (net of any commitments of capital to the extent not received) less (ii) Consolidated Intangible Assets to exceed the ratio set forth opposite such period in such table:

PERIOD	RATIO
June __, 1998 - last day of the Fourth Fiscal Quarter of 1998	1.00:1.00
First day of the First Fiscal Quarter of 1999 - last day of such fiscal quarter	1.25:1.00
First day of the Second Fiscal Quarter of 1999 - last day of the First Fiscal Quarter of 2000	1.75:1.00

----- First day of the Second Fiscal Quarter of 2000 - last day of such fiscal quarter -----	1.50:1.00
First day of the Third Fiscal Quarter of 2000 - last day of such fiscal quarter -----	1.25:1.00
At time thereafter -----	1.00:1.00

11.5 CONSOLIDATED TANGIBLE NET WORTH. The Borrower will not permit Consolidated Tangible Net Worth at any time (a) from June 26, 1998 through the last day of the Fourth Fiscal Quarter of 1998 to be less than \$300,000,000; (b) from the first day of the First Fiscal Quarter of 1999 through the last day of such fiscal quarter to be less than \$207,000,000; (c) from the first day of the Second Fiscal Quarter of 1999 to the last day of such fiscal quarter to be less than \$130,000,000; and (d) at any time thereafter to be less than the sum of (i) \$115,000,000 plus, on a cumulative basis, (b) 75% of positive Consolidated Net Income for each fiscal quarter commencing with the fourth fiscal quarter of 1998, plus (ii) 100% of the proceeds of any sale by the Borrower after the fourth fiscal quarter of 1998 of (1) equity securities issued by the Borrower or (2) warrants or subscription rights for equity securities issued by the Borrower.

11.6. CAPITAL EXPENDITURES. The Borrower will not make, or permit any Subsidiary of the Borrower to make, Capital Expenditures in any fiscal year that exceed, in the aggregate, (a) \$225,000,000 for the 1998 fiscal year; (b) \$200,000,000 for the 1999 fiscal year; and (c) \$300,000,000 in each fiscal year thereafter.

SECTION 5. CONDITIONS TO EFFECTIVENESS. This Third Amendment shall not become effective until the Agent receives (a) a counterpart of this Third Amendment, executed by the Borrower, the Guarantor and the Majority Banks; and (b) payment in cash from the Borrower of an amendment fee in the aggregate amount of \$375,000, which amendment fee shall be for the pro rata accounts of the Banks.

SECTION 6. REPRESENTATIONS AND WARRANTIES. The Borrower hereby repeats, on and as of the date hereof, each of the representations and warranties made by it in Section 8 of the Credit Agreement, and such representations and warranties remain true as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date), provided, that all references therein to the Credit Agreement shall refer to such Credit Agreement as amended hereby. In addition, the Borrower hereby represents and warrants that the execution and delivery by the Borrower of this Third Amendment and the performance by the Borrower of all of its agreements and obligations under the Credit Agreement as amended hereby are within the corporate authority of each the Borrower and has been duly authorized by all necessary corporate action on the part of the Borrower.

SECTION 7. RATIFICATION ETC. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all documents, instruments and agreements related thereto are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement and this Third Amendment shall be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument to the Credit Agreement shall hereafter refer to the Credit Agreement as amended hereby.

SECTION 8. NO WAIVER. Nothing contained herein shall constitute a waiver of, impair or otherwise affect any Obligations, any other obligation of the Borrower or any rights of the Bank Agents or the Banks consequent thereon.

SECTION 9. COUNTERPARTS. This Third Amendment may be executed in one or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.

SECTION 10. GOVERNING LAW. THIS THIRD AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

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

WESTERN DIGITAL CORPORATION

By: /s/ STEVEN M. SLAVIN

Title VP, Taxes & Treasurer

BANKBOSTON, N.A.

By: _____

Title:

NATIONSBANK OF TEXAS, N.A.

By: _____

Title:

THE BANK OF NOVA SCOTIA

By: _____

Title:

ABN AMRO BANK

By: _____

Title:

DEUTSCHE FINANCIAL SERVICES

By: _____

Title:

RATIFICATION OF GUARANTY

The undersigned guarantor hereby acknowledges and consents to the foregoing Third Amendment as of June __, 1998, and agrees that the Guaranty dated as of January 28, 1998 from the undersigned (the "Guarantor") in favor of the Agent and each of the Banks remains in full force and effect, and the Guarantor confirms and ratifies all of its obligations thereunder.

WESTERN DIGITAL ROCHESTER, INC.

By: /s/ WESTERN DIGITAL CORPORATION

Title: President

=====
CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
=====

OEM COMPONENT SUPPLY

AND

TECHNOLOGY LICENSE AGREEMENT

BETWEEN

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND

WESTERN DIGITAL CORPORATION

JUNE 7, 1998

=====
CONFIDENTIAL.
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CONFIDENTIAL TREATMENT REQUESTED.
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OEM COMPONENT SUPPLY AND
TECHNOLOGY LICENSE AGREEMENT

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CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
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OEM COMPONENT SUPPLY AND
TECHNOLOGY LICENSE AGREEMENT

This is an OEM Component Supply and Technology License Agreement ("Agreement"), dated as of June 7, 1998, between Western Digital Corporation ("WDC") and International Business Machines Corporation ("IBM"). WDC is a Delaware corporation with its principal place of business at 8105 Irvine Center Drive, Irvine, California 92618. IBM is a New York corporation with its principal place of business at New Orchard Road, Armonk, NY 10504.

WHEREAS, WDC wishes to purchase certain head gimbal assemblies and other components from IBM for use in WDC's manufacture of certain desktop hard disk drive products; and

WHEREAS, WDC wishes to implement certain head gimbal assembly products designed, developed and manufactured by IBM that contain IBM's leading giant magnetoresistive ("GMR") and future generation head technology and other components in WDC's future hard disk drives for the desktop platform by manufacturing hard disk drives that are based in whole or in part on technology and technical assistance received from IBM; and

WHEREAS, in order to incorporate IBM's GMR and future generation head gimbal assembly products and other components into WDC's desktop hard disk drives, and in order to optimize the effectiveness of the head gimbal assembly technology in WDC's hard disk drives and to fully implement IBM's considerable experience with its own head gimbal assemblies, WDC requires access to certain IBM technology and IBM technical information, including specifications and drawings, as well as certain manufacturing and development ideas, concepts, know-how and techniques; and

WHEREAS, IBM wishes to continue selling hard disk drive components which incorporate its leading technology to other HDD manufacturers; and

WHEREAS, in order to obtain an intended stable source of supply of IBM components, WDC wishes to purchase in volume certain IBM head gimbal assembly products and other components; and

WHEREAS, in order to facilitate the introduction of head gimbal assembly products that contain IBM's leading GMR and future generation head technology into desktop hard disk drive platforms, IBM intends to license certain IBM-specified technology to WDC to allow it to integrate the IBM head gimbal assembly products and other components that WDC will acquire from IBM into WDC's desktop hard disk drive products, providing WDC an opportunity to improve the performance and areal densities of WDC's desktop hard disk drive products, resulting in increased sales by WDC of such desktop products and increased sales by IBM of hard disk drive components; and

WHEREAS, if WDC desires IBM's assistance in procuring components for, or assembling, head stack assemblies, IBM will procure some or all of the components used with head gimbal assemblies to create head stack assemblies and assemble or supervise the assembly of such components and head gimbal assemblies into head stack assemblies to be supplied to WDC;

NOW THEREFORE, in consideration of the promises and the mutual covenants contained herein, IBM and WDC agree as follows:

1.0 PURPOSE AND DESCRIPTION OF THE AGREEMENT

- 1.1 The purpose of this Agreement is for IBM and WDC to enter into a business relationship relating to the purchase of IBM Components and the licensing of certain IBM Technology and IBM Technical Information for use in integrating such components into desktop Products.
- 1.2 Under this Agreement, IBM agrees to sell and WDC agrees to purchase IBM Components, as described in Section 3.1, the OEM Agreement and Attachment H.
- 1.3 Also under this Agreement, IBM agrees to provide to WDC IBM Technology as described in Section 4.0, provide Technical Assistance as described in Section 5.0, and license WDC to use, as described in Section 6.0, IBM Technology and IBM Technical Information. WDC agrees to pay IBM Technology Fees, as described in Section 9.0.

2.0 DEFINITIONS

2.1 An "Action in Bankruptcy" shall be deemed to have occurred if:

- (a) a party shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other Federal or state bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property or assets, (iv) file an answer admitting the material allegations of a petition for involuntary bankruptcy filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) admit in writing its inability to pay its debts as they become due or (vii) take corporate action for the purpose of effecting any of the foregoing; or
- (b) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of a party 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, (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, or (iii) the winding-up or liquidation of such party, and, if and so long as contested by such party, either such proceeding or petition described in this clause (b) 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.

- 2.2 "Agreement" shall mean this OEM Component Supply and Technology License Agreement and its Attachments.
- 2.3 "Acquiring Party" shall mean a party involved in an acquisition of WDC pursuant to a Change of Control.
- 2.4 "AT/IDE Interface" shall mean _____.
- 2.5 "Attachment(s)" shall mean the portions of this Agreement which are identified in Section 22.19.
- 2.6 "Confidential Information" shall mean information or material as described in Section 16.0.
- 2.7 "Change of Control" will be deemed to have occurred if: (i) there shall be consummated (x) any consolidation or merger or other combination of a party in which such party is not the continuing or surviving corporation or pursuant to which shares of such party's common stock would be converted into cash, securities or other property, other than a merger of such party in which the holders of such party's common stock immediately prior to the merger hold at least a majority of the outstanding securities of the combined entity, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of such party; or (ii) the stockholders of such party approve a plan or proposal for the liquidation or dissolution of such party, or a proceeding under Chapter 7 of the Federal Bankruptcy Code is involuntarily commenced against such party and such proceeding is not dismissed within 60 days; or (iii) any "person" (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of fifty (50%) percent or more (25% or more if such "person" is a Subject Acquirer) of such party's outstanding common stock; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of a party shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the party's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.
- 2.8 "Contract" shall mean this Agreement without the OEM Agreement and Attachment H.
- 2.9 "Core IBM Technology" shall mean certain IBM-specified items of IBM Technology or IBM Technical Information that contain highly sensitive and valuable ideas, concepts, know-how or techniques of IBM or its Subsidiaries. A list of Core IBM Technology that IBM and its Subsidiaries intend to provide to WDC and its Subsidiaries under this Agreement is included in Attachment F, which list is subject to revision by IBM during the term of this Agreement in accordance with Section 22.5.3.
- 2.10 "Derivative" or "derivative" shall mean anything based upon or in any way derived from IBM Intellectual Property, Products or IBM Components.
- 2.11 "Derivative Work" shall mean a work that is based on an underlying work and that would be a copyright infringement if prepared without the authorization of the copyright owners of the underlying work. Derivative Works are subject to the ownership rights and licenses of others in the underlying work. Derivative Work shall encompass all modifications, fixes, corrections, additions, and deletions made to the underlying works.

- 2.12 "Desktop Development Group" shall mean employees of WDC's new product introduction or development group, or consultants to WDC's new product introduction or development group who have executed a confidentiality and intellectual property agreement that is in a form which is satisfactory to IBM, who are assigned by WDC to work on desktop Products.
- 2.13 "Disclosing Party" shall mean the party, or any Subsidiary of such party, who discloses Confidential Information to the other party, or a Subsidiary of such other party, to this Agreement under the terms of Section 16.0, Confidential Information.
- 2.14 "Electronics" shall mean, at WDC's option, either (i) the 3-Piece Chip Set or (ii) the PCBA and 3-Piece Chip Set, which WDC and its Subsidiaries acquire from IBM or a Subsidiary of IBM.
- 2.15 "GA" or "General Availability" shall mean the date on which a desktop Product is made generally available for sale in volume by WDC to customers.
- 2.16 "HDA" shall mean head disk assembly.
- 2.17 "HDD" shall mean hard disk drive.
- 2.18 "HGA" shall mean an IBM head gimbal assembly sold to WDC and its Subsidiaries under the OEM Agreement.
- 2.19 "HSA" means an IBM head stack assembly which includes HGA and other components that are sold to WDC and its Subsidiaries under the OEM Agreement.
- 2.20 "HSA Technology Package" shall mean the entire and complete package of IBM Technology that is licensed by IBM under this Agreement and is required by a third party to integrate IBM HSAs into a desktop Product, and which is further described in Attachment D.
- 2.21 "IBM Components" shall mean IBM HGAs and other components that WDC and its Subsidiaries acquire directly from IBM or a Subsidiary of IBM under this Agreement. IBM Components include (i) IBM HGAs, Electronics and other components acquired from IBM or a Subsidiary of IBM during Phase 1, and (ii) IBM HGAs and other components acquired from IBM or a Subsidiary of IBM during Phase 2, unless WDC elects in Phase 2 to acquire Electronics, in which case IBM Components will include IBM HGAs, Electronics and other components during Phase 2.
- 2.22 "IBM Technical Information" shall mean non-public information that IBM or a Subsidiary of IBM provides, in verbal or written form, to WDC or a Subsidiary of WDC in connection with the delivery of Technical Assistance under this Agreement. IBM Technical Information contains, among other things, valuable ideas, concepts, know-how and/or techniques.
- 2.23 "IBM Technology" shall mean non-public information that IBM or a Subsidiary of IBM provides to WDC or a Subsidiary of WDC, in verbal or written form, under the terms of this Agreement, and includes but is not limited to the items described in Attachment D. IBM Technology contains, among other things, valuable ideas, concepts, know-how and/or techniques.

- 2.24 "Initial Delivery Date" shall mean the date on which IBM or a Subsidiary of IBM delivers to WDC or a Subsidiary of WDC in all material respects the preliminary specifications and drawings for mechanical components for [Product A] (i.e., specifications and drawings for mechanical components in IBM's current _____ HDD product), as described in Attachment E.
- 2.25 "Intellectual Property" shall mean any IBM Confidential Information, and any IBM Technology, IBM Technical Information, patents, software and copyrights which IBM licenses to WDC or a Subsidiary of WDC, any patent applications, and any documents that contain IBM Technology, IBM Technical Information, Manufacturing Software, Software Tools and Microcode.
- 2.26 "Inventing Party" shall mean the party that conceives or first actually reduces to practice an Invention while performing work under, and during the term of, this Agreement.
- 2.27 "Invention" shall mean any idea, design, concept, technique, invention, discovery or improvement whether or not patentable or registerable, either conceived or first actually reduced to practice while performing under this Agreement and during the term of this Agreement, solely by one or more employees of one of the parties or its Subsidiaries.
- 2.28 "[Product A]" shall mean the IBM-designed 3.5" form factor, desktop Product that is described in Attachment B-1 of this Agreement.
- 2.29 "Joint Invention" shall mean an Invention that is either conceived of or first reduced to practice by the personnel of both WDC and IBM.
- 2.30 "Joint Work Product" shall mean Work Product that is jointly created by or results from the efforts of the personnel of both WDC and IBM, including any Subsidiaries of WDC or IBM.
- 2.31 "LA" and "Limited Availability" shall mean _____.
- 2.32 "Managing Coordinator" shall mean each of the individuals who are named in Section 21.1 and are responsible for the oversight of this Agreement.
- 2.33 "Manufacturing Software" shall mean software that IBM or a Subsidiary of IBM provides to WDC or a Subsidiary of WDC for use in the manufacturing of desktop Products, and is further described in Attachment C. Manufacturing Software may include software loaded into manufacturing machines, but does not include Software Tools or Microcode.
- 2.34 "Microcode" shall mean software that IBM or a Subsidiary of IBM provides to WDC or a Subsidiary of WDC for embedding into the integrated circuitry of a desktop Product, and which is further described in Attachment C. Microcode shall not include Manufacturing Software or Software Tools.
- 2.35 "Minimum Volume Forecast" shall mean the forecasted volumes of HGAs which WDC and its Subsidiaries intends to purchase from IBM or a Subsidiary of IBM, as described in Attachment A to this Agreement.

- 2.36 "[Product C]" shall mean the first successor 3.5" form factor, desktop Product to [Product B] that is assembled by WDC or a Subsidiary of WDC in accordance with WDC's HDD specifications.
- 2.37 "Object Code" shall mean computer programming code, substantially or entirely in binary form, which is intended to be directly executable by a computer after suitable processing, but without the intervening steps of compilation or assembly.
- 2.38 "OEM" shall mean original equipment manufacturer.
- 2.39 "OEM Agreement" shall mean the OEM Sales and Purchase Agreement between International Business Machines Corporation and Western Digital Corporation attached hereto as Attachment G.
- 2.40 "Part(s)" are the component pieces included within an HSA.
- 2.41 "PCBA" shall mean the IBM-specified printed circuit board assembly that WDC and its Subsidiaries acquire from IBM or a Subsidiary of IBM under Attachment H.
- 2.42 "Phase 1" shall mean the period during which IBM provides Technical Assistance and licenses IBM Technology and IBM Technical Information to WDC, and WDC and its Subsidiaries acquire IBM Components for use in [Product A] and [Product B] and any successor desktop Products thereto that are assembled in accordance with IBM's HDD specifications and added to this Agreement by a written instrument executed by authorized representatives of WDC and IBM.
- 2.43 "Phase 1 HDD with Up to _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with IBM's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains up to _____ disk platters.
- 2.44 "Phase 1 HDD with _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with IBM's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains only _____ disk platters.
- 2.45 "Phase 1 HDD with Up to _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with IBM's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains up to _____ disk platters.
- 2.46 "Phase 2" shall mean the period during which IBM provides Technical Assistance and licenses IBM Technology and IBM Technical Information to WDC, and WDC and its Subsidiaries acquire IBM Components for use in [Product C] and any successor desktop Products thereto that are assembled in accordance with WDC's or a third party's HDD specifications and added to this Agreement by a written instrument executed by authorized representatives of WDC and IBM.
- 2.47 "Phase 2 HDD with Up to _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with WDC's or a third party's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains up to _____ disk platters.

- 2.48 "Phase 2 HDD with _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with WDC's or a third party's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains only _____ disk platters.
- 2.49 "Phase 2 HDD with Up to _____ Platters" shall mean a WDC-manufactured, 3.5" form factor, desktop HDD product that: (i) is assembled in accordance with WDC's or a third party's HDD specifications; (ii) implements an AT/IDE Interface; and (iii) contains up to _____ disk platters.
- 2.50 "[Product B]" shall mean the IBM-designed 3.5" form factor, desktop Product that is described in Attachment B-2.
- 2.51 "Product(s)" shall mean the WDC-manufactured HDDs that incorporate IBM Components.
- 2.52 "Product End of Life" shall mean the date specified in a notice of withdrawal from marketing by IBM of an HGA product contained in a WDC desktop Product, or by WDC of a desktop Product that is subject to this Agreement.
- 2.53 "Program Quarter" or "PQ" shall mean, for any program, the first three (3) calendar months or each three (3) consecutive calendar months thereafter for which WDC has committed to acquire HGAs in production volumes from IBM or a Subsidiary of IBM, which volumes are further described in Attachment A and in the OEM Agreement
- 2.54 "Receiving Party" shall mean the party, or any Subsidiary of such party, who receives Confidential Information from the other party, or any Subsidiary of such other party, under the terms of Section 16.0, Confidential Information.
- 2.55 [Deleted]
- 2.56 "Residuals" shall mean information that is retained in the unaided memories of employees of WDC or its Subsidiaries that is in any way derived from the IBM Technology or IBM Technical Information supplied by IBM or its Subsidiaries to WDC or its Subsidiaries under this Agreement. Notwithstanding the foregoing, the term "Residuals" shall not include any information that contains any Core IBM Technology.
- 2.57 [Deleted]
- 2.58 "Schedule" shall mean the delivery schedule for IBM Technology that ___ is described in Attachment E.
- 2.59 "Senior Executives" for IBM shall be the General Manager of IBM's Storage Systems Division or his or her designee, and for WDC shall be its Chief Executive Officer or his or her designee.
- 2.60 "Software Tools" shall mean IBM-developed software that IBM provides to WDC to test IBM Components or desktop Products, and is further described in Attachment C. Software Tools may include software loaded into test machines, but does not include Manufacturing Software or Microcode.

- 2.61 "SONP" shall mean _____.
- 2.62 "Source Code" shall mean computer instructions in a human readable, non-executable format from which Object Code can be produced by compilation, interpretation and/or assembly. Source Code may also include programming annotations and commentary sufficient to educate a competent computer programmer as to the general intent and purpose of such programming instructions.
- 2.63 "Subject Acquirer" shall mean an Acquiring Party or an affiliate of an Acquiring Party that has revenues in excess of \$_____ in sales of hard disk drives, or storage subsystems or \$_____ in sales of components of hard disk drives in each case measured as of the end of the most recent fiscal year of such person or entity.
- 2.64 "Subsequent Payment(s)" shall mean the payment that WDC pays to IBM as further described in Section 1.1.2 of Exhibit 1 to the OEM Agreement.
- 2.65 "Subsidiary(ies)" shall mean a corporation, company, limited liability company or other entity:
- (a) more than fifty percent (50%) of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a party hereto; or
 - (b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture, or unincorporated association, but more than fifty percent (50%) of whose ownership interest representing the right to make the decisions for such corporation, company or other entity is, now or hereafter, owned or controlled, directly or indirectly, by a party hereto;
- but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.
- 2.66 "Supplement" shall mean an Attachment to this Agreement for a desktop Product that contains, among other things, Minimum Volume Forecast and Third Party Manufacturer time provisions, as further described in Attachment A.
- 2.67 "Technical Assistance" shall mean the services that IBM or its Subsidiaries provides to WDC or a Subsidiary of WDC in accordance with Section 6.0, and includes IBM Technical Information that IBM or a Subsidiary of IBM provides to WDC or a Subsidiary of WDC, in verbal or written form, as a result of IBM's or its Subsidiary's furnishing of such services.
- 2.68 "Technology Fees" shall mean the fees to be paid by WDC to IBM to obtain a license to use IBM Technology and IBM Technical Information in accordance with the license terms described in Section 6.0.
- 2.69 [Deleted]
- 2.70 "VT-2" shall mean _____.

- 2.71 "Work Product" shall mean literary works or other works of authorship, which result from the performance of this Agreement, such as documentation, reports and drawings, but excluding any Manufacturing Software, Software Tools or Microcode.
- 2.72 "3-Piece Chip Set" shall mean the IBM-specified application specific integrated circuit chip set that WDC and its Subsidiaries acquire from IBM or a Subsidiary of IBM under the terms of Attachment H.

3.0 IBM SALE OF PARTS TO WDC

3.1 IBM COMPONENTS

WDC will purchase from IBM certain components pursuant to the OEM Agreement and the agreement entitled Agreement for Fabrication and Purchase of Products (Original Equipment Manufacturer) between International Business Machines Corporation and Western Digital Corporation dated April 8, 1993, as amended (including Amendment No. 16 thereto, the "IMD 3-Piece Chip Set Agreement"), both of which are part of this Agreement and are, respectively, Attachments G and H.

3.2 VENDOR COMPONENTS

3.2.1 In order to achieve compliance with IBM's specifications, WDC may purchase mechanical components for the desktop Products that are the subject of this Agreement only from third party suppliers who meet IBM's qualification standards. WDC shall be solely responsible for the arrangements it makes in the procurement of mechanical components, for the choice of supplier, and for the qualification of its third party suppliers of mechanical components. Specifically, WDC shall be responsible for the selection of, and payment, shipment, delivery, returns, cancellations, rejections and variances from specifications for, all such mechanical components.

3.2.2 IBM will assist WDC in its efforts to qualify third party suppliers of mechanical components for [Product A] and [Product B], including _____ disk media vendors, as follows:

[Deleted]

3.2.3 If WDC elects to acquire IBM Components, and obtain IBM Technology and IBM Technical Information, under Phase 2 for use in [Product C], IBM will provide to WDC component level disk qualification test data for ____ (__) disk media vendors. In addition, for disk media _____ and will maintain standard disk media for the purpose of testing.

3.3.4 [Deleted]

3.3.5 Upon the request of either party, appropriate representatives of WDC and IBM will meet jointly to address matters of joint interest that relate to the manufacturability, quality, reliability, serviceability and potential capacity of mechanical components that are to be acquired by WDC for use in [Product A] and [Product B].

4.0 TECHNOLOGY

4.1 PROCESS FOR PROJECTS

The parties have developed separate Attachments to this Agreement that, among other things, describe, where applicable, the items that IBM plans to provide to WDC under this Agreement. In this regard, Attachments to this Agreement have been prepared for [Product A] and [Product B] that describe the prices and fees for the IBM Components, and a list of items of IBM Technology to be provided to WDC.

With regard to future WDC desktop HDD projects beyond those currently contemplated under this Agreement, they may be made a part of this Agreement in accordance with the terms of Section 4.2.3 or 4.3.3 through the preparation of additional Attachments by the parties. Any such additional Attachments will become a part of this Agreement upon written agreement of the authorized representatives of both parties. Such future projects, if any, will be documented as Attachments in a similar format and detail when they are agreed to by such authorized representatives of the parties.

4.2 PHASE 1 HDD PROGRAMS

4.2.1 To assist WDC in integrating IBM Components for Phase 1, IBM will license IBM Technology and IBM Technical Information to WDC solely to enable it to integrate IBM Components into [Product A] and [Product B]. In order to facilitate WDC's early use of IBM Components, IBM will also license IBM HDD design specifications to WDC under the terms of Sections 6.1.1 and 6.1.2 for [Product A] and [Product B] for Phase 1. All IBM Technology and IBM Technical Information provided by IBM during Phase 1 is licensed to WDC only in accordance with Sections 6.1.1 and 6.1.2.

4.2.2 IBM will provide IBM Technology and IBM Technical Information only to WDC's Desktop Development Group, which will use IBM Technology and IBM Technical Information solely to integrate IBM Components and certain designated non-IBM mechanical components acquired from third parties into [Product A] and [Product B].

4.2.3 At least ____ (____) before WDC's planned General Availability date for a successor desktop product to [Product B], WDC shall determine whether it wishes to continue to acquire IBM Components and receive mutually agreed upon IBM Technology and Technical Assistance under Phase 1 in accordance with the terms of Sections 6.1.1 and 6.1.2. At this time, WDC may perform a "due diligence" review to determine if it wishes to receive IBM Technology and Technical Assistance for this successor desktop product to facilitate WDC's use of IBM Components. If WDC decides to obtain, and IBM decides to provide, such items, then the parties will negotiate (i) the scope of IBM Technology and Technical Assistance to be delivered to WDC by IBM, (ii) a Minimum Volume Forecast and pricing schedule that applies to IBM Components, (iii) Third Party Manufacturer time provisions, and (iv) certain other matters, including any changes or additions to terms and conditions. Upon agreement by the parties, and subject to WDC's payment of all applicable licensing fees, WDC and IBM will amend this Agreement to add a Supplement for such successor new desktop Product for Phase 1, and will update all other applicable Attachments and other terms and conditions.

4.3 PHASE 2 HDD PROGRAMS

4.3.1 WDC may also elect in writing to receive additional IBM Technology applicable to [Product B] and Technical Assistance from IBM for [Product C]. To assist WDC in integrating IBM Components into [Product C], upon WDC's election, IBM will license additional IBM Technology and IBM Technical Information to WDC. All IBM Technology and IBM Technical Information is licensed by IBM only in accordance with Sections 6.1.3 and 6.1.4. If WDC chooses to obtain a license to such IBM Technology and IBM Technical Information applicable to [Product B] solely for use in [Product C], WDC shall provide IBM with written notice at least _____ before WDC's expected availability of [Product C].

4.3.2 At least _____ (---) before WDC's planned General Availability date for a successor desktop product to [Product B], WDC shall determine whether it wishes to continue to acquire IBM

Components and receive mutually agreed upon IBM Technology and Technical Assistance under Phase 2 in accordance with the terms of Sections 6.1.3 and 6.1.4. At this time, WDC may perform a "due diligence" review to determine if it wishes to receive IBM Technology and Technical Assistance for this successor desktop Product to facilitate WDC's use of IBM Components. If WDC decides to obtain, and IBM decides to provide, such items, then the parties will negotiate (i) the scope of IBM Technology and Technical Assistance to be delivered to WDC by IBM, (ii) a Minimum Volume Forecast and pricing schedule that applies to IBM Components, (iii) Third Party Manufacturer time provisions, and (iv) certain other matters, including any changes or additions to terms and conditions. Upon agreement by the parties, and subject to WDC's payment of all applicable licensing fees, WDC and IBM will amend this Agreement to add a Supplement for such successor new desktop Product for Phase 2, and will update all other applicable Attachments and other terms and conditions.

4.3.3 The parties may also discuss and consider whether other products that contain IBM's HSAs or HGAs to be acquired from IBM should be included under this Agreement. If authorized representatives of the parties agree that such other products should be included, amendments to this Agreement may be prepared and executed by the parties for such products.

4.3.4 If WDC desires to use and purchase Electronics in volume from IBM for use in [Product C], provided that IBM believes that it possesses all third party rights, free and clear of all actual and probable third party claims, which are necessary to permit IBM to sell or otherwise distribute Electronics to WDC for use in such Product, IBM agrees to provide an option to WDC to obtain a license for certain mutually agreed upon technology for such Electronics to enable WDC to use such technology solely to integrate such Electronics into [Product C]. If WDC makes a written election to exercise such option for [Product C], IBM will provide to WDC a license to specifications and drawings for the PCBA, as available, and if necessary for WDC to integrate the Electronics solely into [Product C], at a negotiated additional licensing fee. Any license that IBM will grant will be consistent with the rights granted by IBM to WDC pursuant to Sections 6.1.3 and 6.1.4. Such license to IBM Technology will enable WDC solely to integrate Electronics into a Phase 2 HDD with Up to _____ Platters that contains IBM Components. Notwithstanding anything to the contrary, IBM makes no representations or warranties under this Section 4.3.4 that it possesses or will possess sufficient third party rights to sell or otherwise distribute Electronics to WDC under this Agreement.

4.4 LIST OF IBM TECHNOLOGY

4.4.1 Attachment D contains a list of IBM Technology that IBM intends to provide to WDC under Phase 1, and under Phase 2 if WDC elects to receive additional IBM Technology for Phase 2 in accordance with Section 4.3.1. The parties acknowledge that although IBM will use reasonable efforts to provide to WDC the items in this list, IBM may be unable to provide certain selected items. Accordingly, notwithstanding anything to the contrary, provided that IBM has exerted reasonable efforts to provide items of IBM Technology contained in Attachment D, the failure by IBM to provide any such items to WDC shall not constitute a breach of this Agreement or entitle either party to any damages.

4.4.2 WDC obtains no rights or licenses to any IBM copyrights under Sections 4.0 and 6.0. Any copyright license which IBM grants to WDC for Manufacturing Software, Software Tools and Microcode is provided solely in accordance with Section 11.0.

4.4.3 The IBM Technology and IBM Technical Information that IBM provides to WDC under this Agreement contains, among other things, valuable trade secrets, ideas, concepts, know-how, and/or

techniques. All IBM Technology and IBM Technical Information that IBM provides to WDC shall be licensed for WDC's use only in accordance with Section 6.0.

4.5 SCHEDULE FOR TECHNOLOGY

4.5.1 Each party will attempt to meet the checkpoints that are established in Attachment E. Although the parties will use reasonable efforts in attempting to meet the checkpoints in Attachment E, the parties acknowledge that the results of their efforts are uncertain and cannot be guaranteed by either party. Accordingly, notwithstanding anything to the contrary, provided that a party has exerted reasonable efforts in attempting to meet the checkpoints, the failure to achieve such checkpoints shall not constitute a breach of this Agreement. All IBM Technology that IBM provides under this Agreement will be made available by IBM only on an "as available" basis.

4.5.2 While early delivery of IBM Technology is preferred by WDC for Phase 1, items such as IBM's tooling, Microcode and HDD product designs are under a continual state of change until completion of IBM's VT-2. PCBA and firmware are subject to substantial change during VT-2 and, therefore, a major portion of IBM Technology for Phase 1 may be provided by IBM to WDC after the completion of VT-2. Upon mutual agreement of both parties, stable items of IBM Technology will be provided for Phase 1 earlier by IBM to WDC, if available, and items with a greater probability of change may be delayed until such items become less likely to change. It is the intent of both parties to work together to allow for IBM Technology to be provided in Phase 1 to help WDC bring its manufacturing lines to normal production within a timeframe that is consistent with IBM's production schedule for the same desktop Products that are the subject of the delivery of IBM Technology by IBM to WDC under Phase 1.

4.5.3 If WDC elects to receive IBM Technology in Phase 2, specifications and other information for the head disk assembly will be delivered to WDC from IBM no earlier than the date on which VT-2 is concluded for the applicable desktop HDD product. As in Phase 1, upon agreement of both parties, information which is stable, and less likely to change, will be provided earlier for Phase 2 by IBM to WDC, if available, and items with a greater probability of change may be delayed until such items become less likely to change. It is the intent of both parties to work together to allow for IBM Technology to be provided in an agreed upon schedule, but also in a manner that minimizes distractions for the development and design teams in IBM.

5.0 TECHNICAL ASSISTANCE

5.1 IBM will provide Technical Assistance to help WDC to scale-up the initial manufacture under Phase 1 for [Product A] and [Product B]. Such Technical Assistance shall not exceed _____ (____) person years per desktop Product. This Technical Assistance will include the annotation of drawings in English and addressing of procurement issues, vendor selection and qualification.

5.2 To the extent necessary to implement the IBM Technology described above in Phase 1 for [Product A] and [Product B], IBM will provide WDC with a technical training session for a period of up to ____ at its _____ facility in _____. The number of WDC employees who shall be entitled to attend such training shall be up to _____ (____) employees. WDC shall be solely responsible for any travel and lodging expenses that its employees incur to travel to _____, _____, for this technical training session.

5.3 After completion by WDC of the technical training session in Section 5.2, upon WDC's written request, IBM will use reasonable efforts to provide Technical Assistance to help enable WDC to provide customer support, failure analysis and field support to WDC's customers, and factory support for WDC's manufacturing lines. At IBM's option, this ongoing support may be enabled for WDC by locating an agreed upon number of WDC employees, at WDC's expense, among IBM's production engineering team for the corresponding IBM HDD product in _____, _____.

5.4 If WDC elects to obtain IBM Technology under Phase 2 in accordance with Sections 4.3.1 or 4.3.2, and desires to obtain Technical Assistance from IBM under Phase 2 for desktop Products, IBM will provide a U.S. interface team to provide Technical Assistance. This U.S. interface team will include a group of up to _____ (___) people to facilitate the transfer of documents, the providing of assistance, orchestration of WDC to IBM direct communications, and visits to IBM sites (including IBM _____), subject to the following limits:

- (a) IBM will provide a maximum of ___ person-years (_____ hours) for each desktop HDD program (e.g., [Product C], successor desktop Product to [Product C], etc.); and
- (b) IBM will provide a maximum of ___ person year (_____ hours) for support for disk media qualification for each desktop HDD program (e.g., [Product C], successor desktop Product to [Product C], etc.). WDC is solely responsible for such qualification.

The Technical Assistance that IBM will provide to WDC under this Agreement will include the annotation of drawings in English, formulating HDA control specifications, and addressing procurement issues, vendor selection and qualification. As more information and requirements become clear, upon mutual agreement, an additional, smaller support team in _____, _____, may be necessary.

5.5 WDC agrees to channel all requests for Technical Assistance through IBM's interface team. WDC shall not initiate any direct communications to IBM's employees in _____, _____ who are not on IBM's interface team, unless WDC first obtains IBM's prior written consent. Upon mutual agreement, the IBM team will communicate with WDC and IBM sites worldwide. IBM will respond to requests by WDC for Technical Assistance in a prompt and expeditious manner with a written or oral response as appropriate and, if necessary, agreed upon direct contact with persons who can assist WDC on an issue.

5.6 Although IBM will use reasonable efforts in attempting to provide Technical Assistance to WDC, the parties acknowledge that IBM's ability to provide Technical Assistance can not be guaranteed. Accordingly, notwithstanding anything to the contrary, provided that IBM has exerted reasonable efforts in attempting to provide Technical Assistance to WDC, the failure by IBM to provide such Technical Assistance shall not constitute a breach of the Agreement or entitle either party to any damages.

6.0 TECHNOLOGY LICENSE

6.1 WDC LICENSE TO IBM TECHNOLOGY

6.1.1 Subject to WDC's payment to IBM of license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, with respect to IBM Technology and IBM Technical Information for a _____ disk platter desktop HDD configuration in

Phase 1, IBM grants to WDC a non-exclusive license to use such IBM Technology and IBM Technical Information solely to integrate IBM Components and certain designated non-IBM mechanical components acquired from third parties into a Phase 1 HDD with Up to _____ Platters.

6.1.2 Subject to WDC's payment to IBM of license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, with respect to IBM Technology and IBM Technical Information for a _____ disk platter desktop HDD configuration in Phase 1, and _____ disk platter desktop HDD configuration if such IBM Technology and IBM Technical Information is disclosed by IBM to WDC under the terms of this Agreement, IBM grants to WDC a non-exclusive license to use such IBM Technology and IBM Technical Information solely to integrate IBM Components and certain designated non-IBM mechanical components acquired from third parties into a Phase 1 HDD with _____ Platters.

6.1.3 Subject to WDC's payment to IBM of license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, with respect to IBM Technology and IBM Technical Information for a _____ disk HDD platter configuration in Phase 2, IBM grants to WDC a non-exclusive license to use such IBM Technology and IBM Technical Information solely to integrate IBM Components and certain designated non-IBM mechanical components acquired from third parties into a Phase 2 HDD with Up to _____ Platters.

6.1.4 Subject to WDC's payment to IBM of license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, with respect to IBM Technology and IBM Technical Information for a _____ disk platter desktop HDD configuration in Phase 2, and _____ disk platter desktop HDD configuration if such IBM Technology and IBM Technical Information is disclosed by IBM to WDC, IBM grants to WDC a non-exclusive license to use such IBM Technology and IBM Technical Information solely to integrate IBM Components and certain designated non-IBM mechanical components acquired from third parties into a Phase 2 HDD with _____ Platters.

6.2 LICENSED USE

6.2.1 Because many technical problems could arise as a result of changes made by WDC to the IBM HDD Product specifications that IBM provides in Phase 1 (for example, changes could affect manufacturing yields, compatibility of parts and HDD integrity, with possible expense to both parties), WDC is not licensed under this Agreement to make or have made derivatives of, or to make any changes to, IBM HDD product specifications that IBM provides without first obtaining prior written approval from IBM.

6.2.2 WDC is not licensed to distribute IBM's specifications and drawings to any other party, or to use IBM's specifications or drawings to purchase any components. WDC is licensed to use certain IBM-designated specifications or drawings for IBM mechanical components to create its own WDC specifications or drawings for certain specified mechanical components for [Product A] and [Product B], and is licensed to use such WDC-created specifications or drawings to purchase specified mechanical components from other parties for [Product A] and [Product B] that contain IBM Components. If WDC elects to obtain IBM Technology and Technical Assistance under Phase 2 for [Product C], WDC will be licensed to use certain IBM-designated specifications and drawings for IBM mechanical components to create its own WDC specifications and drawings for certain specified mechanical components for [Product C], and may use such WDC-created specifications and drawings to purchase specified mechanical components from other parties for [Product C] that contains IBM Components. WDC shall duplicate exactly the IBM specifications and drawings for IBM mechanical components with changes

only in relabeling; no other changes or deviations may be made without IBM's approval. If WDC wishes to make changes to IBM's specifications and drawings for the items described above, the parties agree to meet and discuss such deviations to ensure that both parties understand the proposed changes. IBM is not obligated to support any deviations from the original IBM specifications and drawings.

6.2.3 Notwithstanding the terms of Sections 16.2, 16.3 and 16.8, all WDC drawings and specifications for mechanical components that are created by WDC pursuant to Section 6.2.2 shall be considered as IBM Confidential under this Agreement. WDC shall place a "WDC Confidential Information" legend in a conspicuous location on each such drawing and specification and, prior to WDC's disclosure of any such WDC drawing or specification to a third party, obtain such third party's written agreement to treat such WDC drawing or specification in accordance with the terms of Section 16.4 as if such third party were named in the place of WDC for the purposes of such Section.

6.2.4 WDC is not licensed to make or have made derivatives of the IBM Components, or any IBM Technology or IBM Technical Information that IBM provides under this Agreement. Except as specified in Sections 6.3, WDC is not licensed to use any IBM Technology or IBM Technical Information in any products that are derivative products of the desktop Products for which WDC acquires IBM Components under this Agreement.

6.2.5 IBM retains all right, title, interest and ownership in the IBM Technology and IBM Technical Information that it provides to WDC. The licenses granted in Section 6.0, Technology License, are licenses to non-public information and, therefore, do not provide WDC with any license or other right, directly or by implication, estoppel or otherwise, to use any copyrights, trademarks, patents or other intellectual property rights of IBM.

6.3 RESIDUALS

6.3.1 If WDC desires to use personnel who have had access to IBM Technology or IBM Technical Information in successor desktop HDD products to the last desktop Product for which WDC acquires IBM Components under this Agreement, then WDC will require from IBM either of the following licenses to allow it to use Residuals:

- (a) subject to IBM's right to terminate this Agreement, Contract or license, a non-exclusive license for WDC to use Residuals solely to integrate IBM HSAs and HGAs acquired from IBM or a Subsidiary of IBM, and mechanical components, into _____ successor Phase 2 HDD with Up to _____ Platters products; or
- (b) subject to WDC's payment of the fees in Section 9.3 of this Agreement, and IBM's right to terminate this Agreement, Contract or license, a non-exclusive license for WDC to use Residuals for _____ successor Phase 2 HDD with Up to _____ Platters products.

Solely for the purpose of interpretation of this Section 6.3 and Section 9.3, a successor Phase 2 HDD with Up to _____ Platters is both a desktop HDD product that (i) is as defined in Section 2.49, and (ii) possesses substantially different performance or physical characteristics from a prior desktop HDD product, and is made generally available for sale in volume by WDC to its customers as one of its primary desktop HDD offerings for a commercially reasonable period of time that is usually associated with such offerings.

WDC shall submit to IBM a written request prior to the use of such personnel in the development of any applicable successor desktop HDD products, and IBM will then grant either of the above licenses to WDC to allow it to use Residuals.

6.4 SUBLICENSING RIGHTS

6.4.1 All of the licenses granted by IBM to WDC to use IBM Technology and IBM Technical Information under this Agreement are non-transferable and personal to WDC, except that (i) IBM's Subsidiaries shall have the right to exercise, and to have third parties who perform the assembly of HGAs and other components into HSAs delivered to WDC or its Subsidiaries exercise, such licenses granted by IBM to WDC under this Agreement without the payment of any fees, and (ii) WDC's Subsidiaries shall have the right to exercise such licenses granted by IBM to WDC under this Agreement, and (iii) the transferability and WDC's personal use of such licenses are subject to the provisions of Section 17.0, Change of Control.

6.4.2 [Deleted]

7.0 INTENTIONALLY LEFT BLANK

8.0 EXCLUSIVE REMEDY AND INCENTIVE PAYMENT

8.1 REMEDY FOR [PRODUCT A]

8.1.1 If IBM fails to meet its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product A], as defined by IBM's established practice, by _____, then the parties agree that beginning with _____, and each _____ days thereafter, the percentage for Subsequent Payments for such configuration of [Product A] that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement will be decreased to the percentage, as depicted below:

Number of Disk Platters	Number of Heads	If LA Date	If LA Date	If LA Date or later
-----	-----	-----	-----	-----
--	--	--	--	--

8.1.2 If IBM fails to meet its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product A], as defined by IBM's established practice, by _____, then the parties agree that beginning with _____, and each _____ days thereafter, the percentage for Subsequent Payments for such configuration of [Product A] that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement will be decreased to the percentage, as depicted below:

Number of Disk Platters	Number of Heads	If LA Date	If LA Date	If LA Date or later
-----	-----	-----	-----	-----
--	--	--	--	--
--	--	--	--	--

8.1.3 In addition, if IBM fails to meet its LA date for _____ disk platter configuration (including the agreed upon areal density) for [Product A], as defined by IBM's established practice, by _____, then the parties agree that beginning with _____, and each _____ days thereafter, with respect to the percentage of _____ percent (____%) for Subsequent Payments that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement, such percentage amount shall be reduced for [Product A] based on the LA date of the _____ disk platter configuration for [Product A], as depicted below:

If LA Date	If LA Date	If LA Date
-----	-----	-----
--	--	--

8.1.4 If IBM has still not met its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product A] by _____, then the _____ payment in the amount of _____ U.S. dollars (\$ _____) owed by WDC to IBM for the _____ disk platter configuration for [Product A] and [Product B] under Section 9.2.1 (on the line defined as "_____ days after the commencement date of [Product A] VT-2 or at IBM's SONP, as defined by IBM's established practice, whichever is later"), will be waived for the failure to meet the scheduled LA date for the _____ disk platter configuration for [Product A].

8.1.5 If IBM has still not met its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product A] by _____, then the _____ payment in the amount of _____ U.S. dollars (\$ _____) owed by WDC to IBM for the _____ disk platter configuration for [Product A] and [Product B] under Section 9.2.1 (on the line defined as "_____ days after the commencement date of [Product A] VT-2 or at IBM's SONP, as defined by IBM's established practice, whichever is later"), will be waived for the failure to meet the scheduled LA date for the _____ disk platter configuration for [Product A].

8.1.6 Because damages are difficult to determine for the failure to demonstrate an agreed upon areal density achievement, IBM shall also pay WDC _____ U.S. dollars (\$ _____) if IBM is unable to demonstrate the achievement of an agreed upon areal density for the _____ disk platter configuration for [Product A] by _____. For the purposes of this Section 8.1.6, the agreed upon areal density for [Product A] is _____ gigabytes per platter at _____ revolutions per minute, and _____ gigabytes per platter at _____ revolutions per minute.

8.1.7 Because damages are difficult to determine for the failure to demonstrate an agreed upon areal density achievement, IBM shall also pay WDC _____ U.S. dollars (\$ _____) if IBM is unable to demonstrate the achievement of an agreed upon areal density for the _____ disk platter configuration for [Product A] by _____. For the purposes of this Section 8.1.7, the agreed upon areal density for [Product A] is _____ gigabytes per platter at _____ revolutions per minute, and _____ gigabytes per platter at _____ revolutions per minute.

8.2 REMEDY FOR [PRODUCT B]

8.2.1 If IBM fails to meet its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product B], as defined by IBM's established practice, by _____, then the parties agree that beginning _____, and each _____ days thereafter, the percentage for Subsequent Payments for such configuration of [Product B] that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement will be decreased to the percentage, as depicted below:

Number of Disk Platters -----	Number of Heads -----	If LA Date -----	If LA Date -----	If LA Date -----
--	--	--	--	--

8.2.2 If IBM fails to meet its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product B], as defined by IBM's established practice, by _____, then the parties agree that beginning _____, and each _____ days thereafter, the percentage for Subsequent Payments for such configuration of [Product B] that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement will be decreased to the percentage, as depicted below:

Number of Disk Platters -----	Number of Heads -----	If LA Date -----	If LA Date -----	If LA Date -----
--	--	--	--	--

8.2.3 In addition, if IBM fails to meet its LA date for _____ disk platter configuration (including the agreed upon areal density) for [Product B], as defined by IBM's established practice, by _____, then the parties agree that beginning with _____, and each _____ days thereafter, with respect to the percentage of _____ percent (____%) for Subsequent Payments that is set forth in Section 1.1.2 of Exhibit 1 of the OEM Agreement, such percentage amount shall be reduced for [Product B] based on the LA date of the _____ disk platter configuration for [Product B], as depicted below:

If LA date -----	If LA date -----	If LA date -----
--	--	--

8.2.4 If IBM has still not met its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product B] by _____, then the _____ payment in the amount of _____ U.S. dollars (\$ _____ owed by WDC to IBM for the _____ disk platter configuration for [Product A] and [Product B] under Section 9.2.1 (on the line defined as "_____ days after the commencement date of [Product B] VT-2 or at IBM's SONP, as defined by IBM's established practice, whichever is later"), will be waived for the failure to meet the scheduled LA date for the _____ disk platter configuration for [Product B].

8.2.5 If IBM has still not met its LA date for the _____ disk platter configuration (including the agreed upon areal density) for [Product B] by _____, then the _____ payment in the amount of _____ U.S. dollars (\$ _____) owed by WDC to IBM for the _____ disk platter configuration for [Product A] and [Product B] under Section 9.2.1 (on the line defined as "_____ days after the commencement date of [Product B] VT-2 or at IBM's SONP, as defined by IBM's established practice, whichever is later"), will be waived for the failure to meet the scheduled LA date for the _____ disk platter configuration for [Product B].

8.2.6 Because damages are difficult to determine for the failure to demonstrate an agreed upon areal density achievement, IBM shall also pay WDC _____ U.S. dollars (\$_____) if IBM is unable to demonstrate the achievement of an agreed upon areal density for the _____ disk platter configuration for [Product B] by _____. For the purposes of this Section 8.2.6, the agreed upon areal density for [Product B] is _____ gigabytes per platter at _____ revolutions per minute.

8.2.7 Because damages are difficult to determine for the failure to demonstrate an agreed upon areal density achievement, IBM shall also pay WDC _____ U.S. dollars (\$_____) if IBM is unable to demonstrate the achievement of an agreed upon areal density for the _____ disk platter configuration for [Product B] by _____. For the purposes of this Section 8.2.7, the agreed upon areal density for [Product B] is _____ gigabytes per platter at _____ revolutions per minute.

8.2.8 The current scheduled LA date for [Product B] is _____, which LA date is based only on the introduction of a _____ revolutions per minute configuration, or such other date that may be mutually agreed upon by the parties. If the parties fail to agree on another LA date for [Product B], then the current scheduled LA date for [Product B] shall remain at _____. If the parties agree in the future on a new LA date for [Product B], they will amend this Section to reflect their agreement. Upon mutual agreement, the parties may also amend Sections 8.2.1 through 8.2.7 to provide new dates for exclusive remedies.

8.3 The parties will negotiate terms for IBM's potential failure to demonstrate agreed upon areal density achievement for desktop Products subsequent to [Product B] that are to be covered under this Agreement, if applicable, setting forth, as an amendment to the Agreement, agreed upon dates and reductions in fees, where appropriate.

8.4 Sections 8.1, 8.2 and 8.3, including any and all subparts, state IBM's sole and entire liability, and WDC's sole and exclusive remedy, for the failures to meet the scheduled LA dates and demonstrate or achieve agreed upon areal densities, for [Product A] and [Product B] (and any subsequent desktop Products, if applicable). Such failures shall not be considered as a breach of this Agreement.

8.5 The definitions that are set forth below in this Section 8.5 apply solely to the terms of Sections 8.5, 8.6, 8.7 and 8.8.

8.5.1 "Flash" shall mean flash memory.

8.5.2 "HDC/MPUs" shall mean hard disk controller and microprocessor units.

8.5.3 "[Product A] Excess Flash Cost" shall mean an amount that consists of (i) the total units of Electronics that contain Flash and are included in [Product A] products sold or leased and shipped to customers during the [Product A] ROM Delay Period by WDC and its Subsidiaries, multiplied by (ii) the Flash Adder (as defined in Attachment H) for each unit of Electronics included in such [Product A] products.

8.5.4 "[Product A] Mask Target Date" shall mean _____ days after WDC's actual LA date for [Product A].

8.5.5 "[Product A] ROM Benefit" shall mean an amount that consists of (i) the total units of Electronics that contain ROM and are included in [Product A] products sold or leased and shipped to customers during the [Product A] ROM Incentive Period by WDC and its Subsidiaries, multiplied by (ii) the Flash Adder (as defined in Attachment H) for each unit of Electronics included in such [Product A] products.

- 8.5.6 "[Product A] ROM Delay Period" shall mean the period immediately preceding the ROM Implementation Date and during which a delay is experienced by WDC in its implementation of ROM into the Electronics for [Product A] that results primarily from the failure by IBM to provide a ROM Mask for [Product A] by the [Product A] Mask Target Date, which period shall under no circumstances exceed the total number of days that is equivalent to the number of days beyond the [Product A] Mask Target Date that IBM failed to make available internally or to a third party a ROM Mask for [Product A].
- 8.5.7 "[Product A] ROM Incentive Period" shall mean the period immediately following the ROM Implementation Date and during which an improvement in schedule is experienced in the implementation of ROM into HDC/MPUs that are contained in the Electronics for [Product A] that results primarily from the delivery by IBM of a ROM Mask for [Product A] prior to the [Product A] Mask Target Date, which period shall under no circumstances be less than a total number of days that is equivalent to the number of days that IBM delivered a ROM Mask for [Product A] in advance of the [Product A] Mask Target Date.
- 8.5.8 "[Product B] Excess Flash Cost" shall mean an amount that consists of (i) the total units of Electronics that contain Flash and are included in [Product B] products sold or leased and shipped to customers during the [Product B] ROM Delay Period by WDC and its Subsidiaries, and multiplied by (ii) the Flash Adder (as defined in Attachment H) for each unit of Electronics included in such [Product B] products.
- 8.5.9 "[Product B] Mask Target Date" shall mean _____ days after WDC's actual LA date for [Product B].
- 8.5.10 "[Product B] ROM Benefit" shall mean an amount that consists of (i) the total units of Electronics that contain ROM and are included in [Product B] products sold or leased and shipped to customers during the [Product B] ROM Incentive Period by WDC and its Subsidiaries, multiplied by (ii) the Flash Adder (as defined in Attachment H) for each unit of Electronics included in such [Product B] products.
- 8.5.11 "[Product B] ROM Delay Period" shall mean the period immediately preceding the ROM Implementation Date and during which a delay is experienced by WDC in its implementation of ROM into the Electronics for [Product B] that results primarily from the failure by IBM to provide a ROM Mask for [Product B] by the [Product B] Mask Target Date, which period shall under no circumstances exceed the total number of days that is equivalent to the number of days beyond the [Product B] Mask Target Date that IBM failed to make available internally or to a third party a ROM Mask for [Product B].
- 8.5.12 "[Product B] ROM Incentive Period" shall mean the period immediately following the ROM Implementation Date and during which an improvement in schedule is experienced in the implementation of ROM into HDC/MPUs contained in the Electronics for [Product B] that results primarily from the delivery by IBM of a ROM Mask for [Product B] prior to [Product B] Mask Target Date, which period shall under no circumstances be less than a total number of days that is equivalent to the number of days that IBM has delivered a ROM Mask for [Product B] in advance of the [Product B] Mask Target Date.

8.5.13 "ROM" shall mean masked read only memory.

8.5.14 "ROM Implementation Date" shall mean the date on which WDC or a Subsidiary of WDC starts shipping [Product A] or [Product B] products, as applicable, that incorporate ROM, which is implemented into the HDC/MPUS for the Electronics acquired from IBM or a Subsidiary of IBM.

8.5.15 "ROM Mask" shall mean _____ Code which is intended to reside in ROM that is to be included in the Electronics for [Product A] or [Product B], as applicable, and which has been qualified in accordance with IBM's standard process.

8.6. The parties anticipate that [Product A] and [Product B] will incorporate HDC/MPUS with Flash for a period of time and subsequently incorporate HDC/MPUS with ROM. IBM currently expects to make available internally or to a third party ROM Mask for use in HDC/MPUS for [Product A] and [Product B] by the [Product A] Mask Target Date and [Product B] Mask Target Date, respectively.

Because damages are difficult to determine for a failure by IBM to make available internally or to a third party a ROM Mask for use in HDC/MPUS that are to be included in Electronics for [Product A] by the [Product A] Mask Target Date, if (i) IBM does not make available internally or to a third party a ROM Mask for use in HDC/MPUS that are to be included in Electronics for [Product A] by the [Product A] Mask Target Date, and (ii) the ROM Implementation Date for HDC/MPUS for the Electronics for [Product A] is delayed primarily as a result of IBM's failure to make such ROM Mask available for use in HDC/MPUS for [Product A] by the [Product A] Mask Target Date, then IBM will pay WDC an amount equal to _____ percent (____%) of the [Product A] Excess Flash Cost that has been incurred by WDC and its Subsidiaries during the [Product A] ROM Delay Period.

Because damages are difficult to determine for a failure by IBM to make available internally or to a third party a ROM Mask for use in HDC/MPUS that are to be included in Electronics for [Product B] by the [Product B] Mask Target Date, if (i) IBM does not make available internally or to a third party a ROM Mask for use in HDC/MPUS that are to be included in Electronics for [Product B] by the [Product B] Mask Target Date, and (ii) the ROM Implementation Date for HDC/MPUS for the Electronics for [Product B] is delayed primarily as a result of IBM's failure to make such ROM Mask available for use in HDC/MPUS for [Product B] by the [Product B] Mask Target Date, then IBM will pay WDC an amount equal to _____ percent (____%) of the [Product B] Excess Flash Cost that has been incurred by WDC and its Subsidiaries during the [Product B] ROM Delay Period.

Notwithstanding the foregoing, IBM's payments under this Section and Section 8.8 will be limited to a maximum amount of _____ U.S. dollars (\$_____) for the [Product A] program, and _____ U.S. dollars (\$_____) for the [Product B] program. In addition, notwithstanding anything to the contrary, IBM shall not bear any costs for any excess supply or over-procurement by WDC and its Subsidiaries of any Flash, including costs for excess supply obtained by WDC and its Subsidiaries for any additional period during which HDC/MPUS containing ROM is not available for purchase in volume from IBM or a Subsidiary of IBM.

This Section 8.6 states IBM's sole and entire liability, and WDC's sole and exclusive remedy, for failures by IBM to make available internally or to third parties ROM Masks for use in HDC/MPUS that are to be included in Electronics for [Product A] and [Product B]. Such failures shall not be considered to be a breach of this Agreement.

8.7 If (i) IBM makes available internally or to a third party a ROM Mask for use in HDC/MPUs that are to be contained in Electronics for [Product A] prior to the [Product A] Mask Target Date, and (ii) the ROM Implementation Date for HDC/MPUs for the Electronics for [Product A] is improved primarily as a result of IBM's success in making such ROM Mask available for use in HDC/MPUs for [Product A] by the [Product A] Mask Target Date, then WDC shall pay IBM an amount equal to _____ percent (____%) of the [Product A] ROM Benefit associated with the Electronics for [Product A]. If IBM makes available internally or to a third party a ROM Mask for use in HDC/MPUs that are to be contained in Electronics for [Product B] prior to the [Product B] Mask Target Date, and (ii) the ROM Implementation Date for HDC/MPUs for the Electronics for [Product B] is improved primarily as a result of IBM's success in making such ROM Mask available for use in HDC/MPUs for [Product B] by the [Product B] Mask Target Date, then WDC shall pay IBM an amount equal to _____ percent (____%) of the [Product B] ROM Benefit that is associated with HDC/MPUs that contain ROM for [Product B].

8.8 WDC and its Subsidiaries shall release purchase orders for Flash to IBM and its Subsidiaries on a weekly basis in an effort to avoid any excess supply or over-procurement.

In addition, if IBM or a third party accepts or qualifies the use of a ROM Mask for use in HDC/MPUs for Electronics prior to the formal release of such ROM Mask, WDC and its Subsidiaries will not take any actions to unreasonably delay the implementation of such ROM Mask into HDC/MPUs that are to be contained in the Electronics for the [Product A] and [Product B] products.

For purposes of Sections 8.6 and 8.7, WDC shall have the burden of proof to establish that a delay in the schedule for implementation of ROM was caused primarily by IBM's failure to make available a ROM Mask by the [Product A] Mask Target Date or [Product B] Mask Target Date, as applicable. In addition, for purposes of Sections 8.6 and 8.7, IBM shall have the burden of proof to establish that an improvement in schedule for the implementation of ROM was caused primarily by IBM's success in achieving early delivery of a ROM Mask by the [Product A] Mask Target Date or [Product B] Mask Target Date, as applicable.

At the end of each calendar quarter, the parties shall determine the amount that may be due and owing under Sections 8.6 and 8.7, and any such amount shall be paid to the appropriate party within _____ days after the date on which the determination is made.

Any payment that is required to be paid by IBM or WDC under Sections 8.6 or 8.7 will be paid by electronic funds transfer to a bank account designated by the appropriate party at the time a determination is made, or pursuant to any such other method that WDC and IBM may agree to. Notwithstanding the foregoing, if any payment(s) become due to WDC, IBM may elect to waive licensing fees required to be paid by WDC for desktop Products within the next _____ day period in lieu of making such payment.

9.0 TECHNOLOGY FEES

9.1 TECHNOLOGY LICENSE FEES

9.1.1 [Deleted]

9.1.2 [Deleted]

9.1.3 [Deleted]

9.1.4 [Deleted]

9.1.5 [Deleted]

9.1.6 [Deleted]

9.2 PAYMENT TERMS

9.2.1 WDC shall pay to IBM the following license fees, based upon amounts due under Sections 9.1.1 and 9.1.2, on or before the required payment dates set forth below for the licenses to IBM Technology and IBM Technical Information that IBM provides to WDC under Phase 1 for [Product A] and [Product B]:

Required Payment Date	_____ Disk Platters Amount of Payments	_____ Disk Platters Amount of Payments
-----	-----	-----
--	\$ --	\$ --
--	--	--
_____ days after the Commencement Date of [Product A] VT-2 or at IBM's SONP checkpoint, as defined by IBM's established practice, whichever is later	--	--
On the Commencement Date of [Product B] VT-2	--	--
_____ days after the Commencement Date of [Product B] VT-2 or at IBM's SONP checkpoint, as defined by IBM's established practice, whichever is later	--	--
Total Required Payments	----- \$ -- =====	----- \$ -- =====

IBM will promptly notify WDC of the date on which it begins VT-2 for both [Product A] and [Product B] (the "Commencement Date"). All IBM obligations that are associated with the payments required to be paid by WDC to IBM prior to _____, shall be considered to have been fulfilled by IBM no later than the Initial Delivery Date.

9.2.2 For IBM Technology and IBM Technical Information that IBM will provide for any successor Phase 1 programs or for Phase 2 programs, any license fees that are due to IBM shall be paid by WDC on the date on which WDC commits to receive IBM Technology and IBM Technical Information for the new HDD program with IBM.

9.2.3 All payments that are to be made by WDC to IBM for IBM Technology and IBM Technical Information, including Residuals, shall be non-refundable. All payments shall be paid by WDC to IBM by electronic funds transfer to the IBM-designated bank account described in Section 21.2.1 of this Agreement, and shall be in U.S. dollars. Any amounts due from IBM to WDC shall be paid by electronic funds transfer to an account designated by WDC to IBM, or pursuant to such other method as IBM and WDC may mutually agree.

9.3 LICENSE FEES FOR RESIDUALS

9.3.1 For WDC's use of Residuals, in whole or in part, in accordance with Section 6.3.1(b), for the _____ successor desktop HDD product to the desktop Products for which WDC acquires IBM Components under this Agreement, WDC shall pay IBM a fee that is equal the greater of: _____ percent (___%) in the aggregate, or the percentages set forth in the table below, of all net revenues, as determined in accordance with generally accepted accounting principles, from WDC's sales, leases and other distribution of such successor desktop HDD products. Any amount due hereunder will be paid by WDC to IBM no later than _____ days after the end of each calendar month in which such transactions occur.

[Table Deleted]

9.3.2 For WDC's use of Residuals, in whole or in part, in accordance with Section 6.3.1(b), for the _____ successor desktop HDD product to the desktop Products for which WDC acquires IBM Components under this Agreement, WDC shall pay IBM a fee that is equal to the greater of: (i) _____ percent (___%) in the aggregate, or (ii) the percentages set forth in the table below, of all net revenues, as determined in accordance with generally accepted accounting principles, from WDC's sales, leases and other distribution of such successor desktop HDD products. Any amount due hereunder will be paid by WDC to IBM no later than _____ days after the end of each calendar month in which such transactions occur.

[Table Deleted]

9.3.3 No additional fees will be required to be paid by WDC to IBM under this Agreement for WDC's use of Residuals, in whole or in part, in accordance with Section 6.3.1 for the _____ successor desktop HDD product and those desktop HDD products that are successors to such _____ successor desktop HDD product, beyond the last WDC desktop Product for which WDC buys IBM Components from IBM or a Subsidiary of IBM under this Agreement.

9.3.4 For WDC's use of certain mutually agreed upon WDC-created specifications and drawings for certain designated mechanical components for the last desktop Product covered by this Agreement, which specifications and drawings have been derived, in whole or in part, based on IBM Technology or IBM Technical Information that IBM has supplied to WDC under this Agreement:

- (a) upon WDC's written request, WDC and IBM will negotiate a fee arrangement for WDC's use of any such mutually agreed upon WDC-created specifications and drawings in WDC's _____ successor Phase 2 HDD with Up to _____ Platters products beyond the last desktop Product covered by this Agreement; and
- (b) provided that WDC has paid to IBM all fees due under this Agreement, WDC may use, at no additional charge, such mutually agreed upon WDC-created specifications and drawings in additional successor WDC Phase 2 HDD with Up to _____ Platters products beyond the _____ successor WDC Phase 2 HDD with Up to _____ Platters product described in Section 9.3.4(a).

WDC shall enter into a fee agreement with IBM before WDC uses any such WDC-created drawings and specifications for mechanical components in the first two successor WDC Phase 2 HDD with Up to _____ Platters product. This fee agreement will include a license grant to permit WDC to use such drawings and specifications in the appropriate successor WDC Phase 2 HDD with Up to _____ Platters product(s). This license will be subject to WDC's payment of fees and IBM's rights of termination under Section 19.0. The parties acknowledge that there will be certain agreed upon WDC specifications and drawings which do not include Core IBM Technology for certain designated mechanical components for successor WDC Phase 2 HDD with Up to _____ Platters products that will not be subject to a fee.

9.4 INTEREST

Either party may charge the other party interest on any overdue payment required to be paid under this Agreement. If either party decides to charge interest, interest will accrue on the date a payment becomes due. The interest rate shall be an annual rate equal to _____. If this rate exceeds the maximum legal rate where a claim for interest is being asserted, it will be reduced to the maximum legal rate.

9.5 TAXES

Each party shall pay all taxes, including, without limitation, sales and value added taxes, imposed by the national government, including any political subdivision thereof, of any country in which said party is doing business, as the result of said party's furnishing consideration under this Agreement.

10.0 AUDIT

10.1 WDC will maintain relevant records to support all payments made to IBM under, and to show its compliance with, the terms of this Agreement. Such records will be retained in accordance with WDC's normal record retention policies; however, for payments made to IBM, records supporting such payments will be maintained by WDC for a minimum period of _____ (____) years from the date of payment to IBM.

10.2 Upon request from IBM, WDC will provide written assurances pertaining to WDC's performance of its obligations under this Agreement that are reasonably satisfactory to IBM. Upon request, WDC will make available to IBM documents and other information (but excluding documents containing WDC Confidential Information that have not been previously provided by WDC to IBM), that are reasonably necessary to verify WDC's compliance with the terms of this Agreement.

10.3 IBM may also request that an audit be performed of certain specified provisions of the Agreement by an independent auditor. If IBM elects to have such an audit performed, WDC will make available financial, technical and other information and records to such independent auditor. The independent auditor selected shall be selected and compensated by IBM. Prior to beginning such audit, the independent auditor will enter into an agreement with WDC to maintain in confidence WDC's Confidential Information. WDC shall cooperate with the independent auditor in responding to requests for WDC information and records. The independent auditor will promptly conduct and issue an audit report to WDC and IBM. If the independent auditor determines that WDC has failed to comply with any of the terms of this Agreement being audited, such independent auditor shall only disclose to IBM and WDC the results of the audit without revealing WDC's Confidential Information. If the independent auditor determines that WDC owes any monies to IBM under this Agreement, such auditor shall only disclose in its audit report to IBM and WDC the (i) amounts that are due, but have not been paid, by WDC to IBM under this Agreement, together with any interest due thereon; and (ii) a calculation as to how such amounts were actually determined, if applicable.

10.4 If an audit discloses that WDC has underpaid IBM any amount due under the Agreement, WDC shall promptly pay to IBM the amount of such underpayment, including any interest due thereon. If the results of an audit reveal that WDC has underpaid fees to IBM by an amount that exceeds the cost of the audit, then WDC shall promptly reimburse IBM for all expenses that it has incurred in connection with the audit. WDC shall promptly pay to IBM all amounts that are due and owing.

10.5 If WDC implements any Core IBM Technology into a WDC 3.5" form factor, HDD product that implements an AT/IDE Interface, a rebuttable presumption shall arise in IBM's favor that each such HDD product sold or leased by WDC has been developed, manufactured or qualified based, in whole or in part, on IBM Technology or IBM Technical Information provided under this Agreement. In order to overcome this rebuttable presumption, WDC shall prove to IBM's reasonable satisfaction that each such HDD product has not been developed or manufactured based, in whole or in part, on such IBM Technology or IBM Technical Information. Upon IBM's request, WDC will promptly provide information to IBM to rebut this presumption. IBM agrees that any such information shall constitute WDC Confidential Information and be treated in accordance with Section 16.0.

11.0 COPYRIGHTS

11.1 LICENSE TERMS

11.1.1 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to reproduce and use internally up to _____ (___) copies of IBM documents containing IBM Technology or IBM Technical Information for [Product A] and [Product B] (and successor desktop Products in Phase 1 if WDC elects in writing to obtain IBM Technology for them) that IBM provides to WDC under this Agreement. WDC shall maintain a log and track all copies of IBM documents containing IBM Technology or IBM Technical Information which are made and distributed by WDC. This log shall be subject to audit by IBM or its designee.

11.1.2 IBM shall provide to WDC a _____ in _____ Code form of the Manufacturing Software, Software Tools and Microcode for [Product A] and [Product B] as described in Attachment C. Although IBM will use reasonable efforts in attempting to provide the Manufacturing Software, Software Tools

and Microcode to WDC, IBM may be unable to provide certain selected items. Accordingly, notwithstanding anything to the contrary, provided that IBM has exerted reasonable efforts to provide the items of Manufacturing Software, Software Tools and Microcode contained in Attachment C, the failure by IBM to provide any such items to WDC shall not constitute a breach of this Agreement or entitle either party to any damages.

11.1.3 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to use, execute, reproduce (solely for backup purposes), display and perform (all internally to WDC) the Manufacturing Software, but excluding the LSSS System Software which is subject to Section 11.1.6, for [Product A] and [Product B] only at the WDC locations described in Section 11.3.2, and solely to assemble [Product A] and [Product B] (and successor desktop Products in Phase 1 if WDC elects in writing to obtain IBM Technology for them).

11.1.4 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to use, execute, reproduce (solely for backup purposes only), display and perform (all internally to WDC) Software Tools that IBM provides to WDC only at the WDC locations described in Section 11.3.2, and solely to permit WDC to prepare modifications to the Microcode for [Product A] and [Product B] for customer qualification and support of [Product A] and [Product B] (and successor desktop HDD products in Phase 1 if WDC elects in writing to obtain IBM Technology for them).

11.1.5 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to: (i) use, execute, reproduce, display and perform (all internally to WDC) the _____ Code form of the Microcode for [Product A] and [Product B] as described in Attachment C, solely for the purpose of manufacturing desktop Products; and (ii) distribute externally the _____ Code form of the Microcode as embedded into [Product A] and [Product B] in conjunction with the sale, lease or other distribution of [Product A] and [Product B].

11.1.6 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to use, execute, reproduce (solely for backup purposes), display and perform (all internally to WDC) the LSSS System Software in _____ Code and _____ Code form that IBM provides to WDC only at the WDC locations described in Section 11.3.2, and solely for the purpose of manufacturing desktop Products.

11.1.7 WDC agrees not to reverse assemble, decompile, decode or reverse translate the _____ Code for any Manufacturing Software, Software Tools and Microcode that IBM provides to WDC.

11.2 WDC MODIFICATIONS AND LICENSES

11.2.1 Subject to WDC's payment to IBM of the license fees in accordance with the terms of this Agreement and IBM's right to terminate this Agreement, Contract or license, IBM grants to WDC a non-exclusive copyright license to use, execute, reproduce, display and perform (all internally to WDC) certain IBM-designated sections of [Product A] and [Product B] Microcode in _____ Code form only at the WDC locations described in Section 11.3.2, and solely to allow WDC to prepare modifications to such Microcode that are necessary for customer qualification and support for [Product A] and [Product B] (and successor desktop Products in Phase 1 if WDC elects in writing to obtain IBM Technology for them).

11.2.2 WDC will provide to IBM modifications to the Microcode that WDC creates for IBM's prompt review. For modifications made by WDC to the Microcode, WDC grants to IBM and its Subsidiaries an irrevocable, non-exclusive, worldwide paid-up right and license to use, execute, reproduce, display, perform, distribute, transfer, sublicense, make and have made, prepare and have prepared, Derivative Works of such modifications. WDC grants to IBM and its Subsidiaries the right to authorize others to do any of the above.

11.3 RESTRICTIONS

11.3.1 WDC will not remove any IBM proprietary or copyright notices from documents containing IBM Technology or IBM Technical Information, Manufacturing Software, Software Tools and Microcode. IBM retains all right, title, interest and ownership in such documents, Manufacturing Software, Software Tools and Microcode. Except as is expressly provided in this Contract, WDC shall obtain no rights to either create or have created any derivative works of such documents, Manufacturing Software, Software Tools and Microcode without first obtaining the prior written approval from IBM.

11.3.2 [Deleted]

11.3.3 The copyright licenses granted by IBM to WDC under Section 11.0 do not provide WDC with any license or other right, directly or by implication, estoppel or otherwise, to use any other copyrights, trademarks, patents or other intellectual property rights of IBM.

11.3.4 The documents that contain IBM Technology or IBM Technical Information, Manufacturing Software, Software Tools and Microcode which are provided to WDC under this Agreement are IBM Confidential. WDC shall treat these items in accordance with the terms of Section 16.0, Confidential Information. Upon the termination or natural expiration of this Agreement, Contract or license, all of the copyright licenses granted by IBM under this Agreement shall terminate, and WDC shall return all copies of the documents containing IBM Technology or IBM Technical Information, Manufacturing Software, Software Tools and Microcode to IBM within thirty (30) days after such termination or natural expiration.

11.4 SUBLICENSING RIGHTS

All of the copyright licenses granted by IBM to WDC are non-transferable and personal to WDC, except that (i) IBM's Subsidiaries shall have the right to exercise, and to have third parties who perform the assembly of HGAs and other components into HSAs delivered to WDC or its Subsidiaries exercise, such licenses granted by IBM to WDC under this Agreement without the payment of any fees, and (ii) WDC's Subsidiaries shall have the right to exercise such licenses granted by IBM to WDC under this Agreement, and (iii) the transferability and WDC's personal use of such licenses are subject to the provisions of Section 17.0, Change of Control.

11.5 WORK PRODUCT

11.5.1 Each party shall own Work Product created solely by its employees and consultants. The parties shall jointly own Work Product that is jointly created by their employees or consultants. Creation of Joint Work Product and resulting joint ownership shall not affect ownership of copyrights for pre-existing

materials that are included in the Joint Work Product. Subject to the obligations of confidentiality in Section 16.0 that apply to any Confidential Information included in any Joint Work Product, each party shall have the unrestricted right to grant licenses under copyright in the Joint Work Product (including the right for any licensee to grant sublicenses) to third parties without accounting to the other party, and each party hereby consents to the grant of any such copyright licenses to third parties to the extent such consent is required by the laws of any country in which such licenses are granted.

11.5.2 Each party shall have the right to obtain and to hold in the joint owners' name copyrights, registrations and such other statutory and common law protection as may be available, and any extensions and renewals thereof, in the Joint Work Product in which it has ownership. Each party agrees to give the other party, and any person designated by the other party, at such other party's expense, all assistance reasonably required to perfect the rights defined in this Section.

11.5.3 To the extent that any pre-existing materials, other than modifications to the Microcode, of WDC are contained in the Work Product created by WDC (including Joint Work Product), WDC grants to IBM and its Subsidiaries an irrevocable, nonexclusive, worldwide, paid-up right and license under copyright to use, execute, reproduce, display, perform, distribute, transfer, sublicense, make and have made, prepare and have prepared, Derivative Works of, such pre-existing materials. WDC also grants to IBM and its Subsidiaries the right to authorize others to do any, some or all of the foregoing.

11.5.4 The notice of copyright shall reflect the respective ownership of materials. The provisions of Section 11.5 shall survive the expiration or termination of this Agreement or Contract.

12.0 TECHNOLOGY AND COPYRIGHT INDEMNITY

If a third party claims that the IBM Technology or IBM Technical Information, Software Tools, Manufacturing Software or Microcode that IBM provides under this Contract infringes a trade secret of a third party, or that such IBM Technology or IBM Technical Information, Software Tools, Manufacturing Software or Microcode that IBM provides under this Contract infringes a copyright of a third party, IBM shall defend WDC against such claim at IBM's expense and pay costs, damages, and attorney's fees a court finally awards, provided that WDC:

- (a) promptly notifies IBM in writing of the claim; and
- (b) allows IBM sole control of, and cooperates with IBM in, the defense and any related settlement negotiations.

In addition, if such a claim is made or appears likely to be made, WDC will permit IBM, at IBM's discretion, either to enable WDC to continue to use that portion of the IBM Technology or IBM Technical Information, Software Tools, Manufacturing Software or Microcode that is the subject of the claim (by obtaining a license or otherwise) or to modify or replace that portion of the IBM Technology or IBM Technical Information, Software Tools, Manufacturing Software or Microcode that is the subject of the claim, without such infringement.

Notwithstanding anything to the contrary, IBM shall have no liability and shall not indemnify WDC for such claim if the claim is based on:

- (a) any modification of IBM Technology or IBM Technical Information, Software Tools, Manufacturing Software or Microcode by WDC;
- (b) the combination, operation, or use of IBM Technology or IBM Technical Information Software Tools, Manufacturing Software or Microcode with other information, product, data, or apparatus not provided by IBM, if such infringement is caused by such combination;
- (c) the use of IBM Technology, IBM Technical Information, Software Tools, Manufacturing Software or Microcode by WDC in other than its specified operating environment; or
- (d) infringement by non-IBM technology, non-IBM technical information non-IBM software tools, non-IBM manufacturing software or non-IBM microcode alone.

IBM's aggregate liability under this Section shall not exceed _____ IBM provides no indemnities under this Section to WDC with respect to any third party claims of patent infringement.

13.0 NOTICE OF ADDITIONAL LICENSES

13.1 Nothing in this Agreement shall prevent, without the use of the Intellectual Property of the other party, either party from developing or manufacturing and, except for WDC's obligation to integrate IBM Components into WDC's HDDs, from marketing, selling or otherwise distributing, the items sold or described in the specifications or drawings licensed under this Agreement, or items similar to or competitive with those items.

13.2 [Deleted]

13.3 [Deleted]

13.4 [Deleted]

13.5 [Deleted]

13.6 Notwithstanding anything to the contrary, IBM will be relieved of all of its obligations under this Section 13.0, Notice of Additional Licenses, and Attachment A, for the HSA Technology Package for [Product A] if WDC has failed to commence PQ1 for [Product A] within _____ after IBM's SONP date for [Product A], provided, however, that WDC's failure to commence PQ1 does not arise primarily from IBM's inability to deliver in all material respects the HSA Technology Package for [Product A] to WDC in accordance with a mutually agreed upon Schedule. WDC shall bear the burden of proof under this provision.

13.7 Notwithstanding anything to the contrary, IBM will be relieved of all of its obligations under this Section 13.0, Notice of Additional Licenses, and Attachment A to this Agreement, for the HSA Technology Package for [Product B] if WDC has failed to commence PQ1 for [Product B] within _____ after IBM's SONP date for [Product B], provided, however, that WDC's failure to commence PQ1 does not arise primarily from IBM's inability to deliver in all material respects the HSA Technology Package for [Product B] to WD in accordance with a mutually agreed upon Schedule. WDC shall bear the burden of proof under this provision.

14.0 THIRD PARTY PATENTS

14.1 The parties recognize that each of them has patent license arrangements with third parties and that it is the individual responsibility of WDC to secure any rights under the patents of third parties or any other intellectual property rights which may be needed to enable WDC to make, have made, market and otherwise distribute the desktop Products that are covered under this Agreement. WDC acknowledges that it is WDC's responsibility to obtain any necessary third party rights, and that no license or other right is extended by IBM to WDC under any such third party patents.

14.2 If WDC is unable to obtain any necessary third party rights that are needed by WDC to manufacture and market the desktop Products that are covered under this Agreement, WDC will notify IBM to determine if WDC may be able to avoid infringement by procuring components directly from IBM. In the event of such infringement, both parties will work together in good faith to enable WDC to continue to manufacture and market desktop Products that are covered under this Agreement.

14.3 IBM makes no representations or warranties, express or implied, with respect to the infringement of any patents or other rights of third parties, including but not limited to any infringement which may arise out of or result from the manufacture and sale by WDC of desktop Products, the use of any of the IBM Technology or IBM Technical Information, the operation by WDC under any of the licenses granted in this Agreement, or the use by WDC of any improvement that is disclosed by IBM. In addition, except as otherwise provided in Section 12.0 and except for any patent indemnity provisions for IBM Components that are expressly set forth in the OEM Agreement and Attachment H, IBM assumes no liability under this Agreement with respect to any infringement by WDC of any patents or other rights of any third parties.

15.0 INVENTIONS

15.1 Each Invention, other than a Joint Invention, shall be the Inventing Party's property. The Inventing Party shall have complete discretion in seeking and/or maintaining any patent or other protection and shall bear any and all expenses incurred with respect thereto.

15.2 Joint Inventions shall be jointly owned, title to all patents issued thereon shall be joint and equal, all expenses incurred in obtaining and maintaining such patents shall be jointly and equally shared (except as provided hereinafter), and each party shall have the unrestricted right to grant licenses (including the right for any licensees to grant sublicenses) to a third party thereunder without accounting to the other party and with any necessary consent hereby given by the other party as may be required by any country law in granting such licenses to a third party.

With respect to any Joint Inventions, where one party elects not to seek or maintain such protection thereon in any particular country or not to share equally in the expenses thereof, the other party shall have the right to seek or maintain such protection at its own expense and shall have full control over the prosecution and maintenance thereof even though title to any patent issuing thereon shall be joint.

15.3 In connection with the obtaining of patent protection for a Joint Invention, each party agrees to give the other party all reasonable assistance in connection with the preparation and prosecution of any patent application filed by the other party and shall cause to be executed all assignments and other instruments and documents as may be reasonably necessary or appropriate to carry out the intent of this section.

15.4 Nothing in this Agreement shall be deemed to grant, either directly or by implication, estoppel or otherwise, any license under any patents or patent applications of either party. The licensing of patents and patent applications is covered under a separate patent cross license agreement between the parties.

16.0 CONFIDENTIAL INFORMATION

16.1 Subject to Section 16.3 and the other provisions of this Section 16.0, IBM and WDC, and their Subsidiaries, may deliver or exchange information to accomplish the objectives of this Agreement. Either party, including its Subsidiaries, may disclose information in oral or written form. Such information may include data, techniques, technical information inherent in samples, know-how, equipment specifications, equipment performance, or other information ("Confidential Information"). The terms of this Agreement are considered to be Confidential Information to IBM and WDC.

16.2 All disclosures of information shall be deemed to be non-confidential unless specifically designated, as provided for in Section 16.3, as including IBM or WDC Confidential Information, as the case may be.

With respect to all information disclosed by one party, including its Subsidiaries (the "Disclosing Party"), to the other party, including its Subsidiaries (the "Receiving Party"), except for such information as is specifically designated as the Confidential Information of the Disclosing Party, the Disclosing Party grants to the Receiving Party, to the extent, if any, of the Disclosing Party's interest therein, an irrevocable, nonexclusive, unrestricted, and worldwide right to use, have used, disclose to others, and to dispose of, all without limitation, such non-confidential information in the development, manufacturing, marketing and maintenance of products and services that incorporate such information, subject to any applicable patent rights, copyrights and other intellectual property rights that are capable of being registered, of the Disclosing Party.

16.3 Except for the disclosure or delivery to WDC or its Subsidiaries of IBM Intellectual Property, which IBM Intellectual Property, except for published patents, shall in every circumstance be deemed IBM Confidential Information under this Agreement, and except as specifically provided in other Sections of this Agreement, information to be disclosed under this Agreement shall be considered confidential only in the following circumstances:

- (a) When such information is disclosed in a writing, the writing must contain an appropriate legend, such as "IBM Confidential" or "WDC Confidential," or other similar language that clearly denotes that it is confidential information of the Disclosing Party.
- (b) When such disclosure is made orally:
 - (i) it is confirmed in writing;

- (ii) the confirmation is physically or electronically sent to the Receiving Party within thirty (30) days following the disclosure; and
- (iii) the confirmation specifically describes the information that is confidential.

16.4 With respect to Confidential Information of IBM or its Subsidiaries which is disclosed to WDC or its Subsidiaries, and subject to other provisions contained in this Section 16.0, such Confidential Information shall be subject to an obligation of confidentiality for a period of _____ after the final disclosure date or _____ after the date of expiration or termination of this Agreement or Contract, whichever occurs first. Notwithstanding anything to the contrary, with respect to any _____ Code provided by IBM or its Subsidiaries to WDC or its Subsidiaries, such _____ Code shall be subject to an obligation of confidentiality until IBM or its Subsidiaries makes such _____ Code publicly available without an obligation of confidence. WDC agrees to use the same care and discretion to avoid disclosure, publication or dissemination of IBM's Confidential Information outside of those employees who have a need to know, as WDC employs with similar information of its own that it does not desire to disclose, publish or disseminate outside the group of its own employees who have such a need to know.

With respect to Confidential Information of WDC or its Subsidiaries which is disclosed to IBM, and subject to other provisions contained in this Section, for a period of _____ after disclosure or _____ after the date of the expiration or termination of this Agreement or Contract, whichever occurs first, IBM agrees to use the same care and discretion to avoid disclosure, publication or dissemination of WDC's Confidential Information outside of those employees who have a need to know in order to perform activities permitted by this Agreement, as IBM employs with similar information of its own that it does not desire to disclose, publish or disseminate outside the of a group of its own employees who have such a need to know.

Except as is otherwise provided in Section 6.0, and except for IBM Confidential Information provided as IBM Intellectual Property or contained in such IBM Intellectual Property, and except for any ideas, know-how, concepts or techniques contained in such IBM Technology and IBM Technical Information, which are subject to other provisions contained in this Agreement, the Receiving Party shall be free to use any such Confidential Information provided by the Disclosing Party or contained in any reports and written documentation prepared by the Disclosing Party, and any ideas, know-how, concepts or techniques contained in any such Confidential Information for any purpose, including the use of such Confidential Information in the development, manufacture, marketing and maintenance of its products and services, subject only to the obligations not to disclose, publish or disseminate such Confidential Information during the period of confidentiality specified in this Section 16.0.

Except as is otherwise provided in Section 22.5, receipt of Confidential Information under this Agreement shall not create any obligation in any way limiting or restricting the assignment or reassignment of IBM employees within IBM and its Subsidiaries, and WDC employees within WDC and its Subsidiaries.

Subject to the provisions of Section 11.0, the Receiving Party may make a reasonable number of copies of written documentation containing Confidential Information solely for the purposes authorized by this Agreement, but must keep track of each copy. At either party's request, and at expiration or termination of this Agreement, Contract or licenses, the other party shall return any Confidential Information that exists in tangible form that was disclosed by the other party, except that either party may retain one (1)

copy of such Confidential Information which shall be kept in the Receiving Party's legal department and used solely for archival purposes or for maintenance of Phase 1 and Phase 2 desktop Products that are covered under this Agreement. This provision shall not apply to jointly created material or to any written material that is subject to the copyright licenses granted in this Agreement.

Following the period of confidentiality specified in this Section 16.0 and subject to any applicable patent rights, copyrights, restrictions on _____ Code or license provisions of the Disclosing Party, (i) no obligation of any kind is assumed by, or is to be implied against, the Receiving Party with respect to any Confidential Information, and (ii) the Receiving Party shall be free to disclose, publish and disseminate such Confidential Information to others without limitation and shall have all the rights relative to such Confidential Information as are set forth in this Section as if it had been transferred as non-confidential information.

16.5 Disclosure of Confidential Information shall not be precluded under the circumstances listed below. However, in the case of disclosure by the Receiving Party, that party shall first have given as much notice to the Disclosing Party as practicable and made a reasonable effort to obtain a protective order requiring that the Confidential Information or documents disclosed be used only for the purposes for which the order was issued.

Subject to the above paragraph, disclosure of Confidential Information shall not be precluded under this Agreement if such disclosure is:

- (a) required by law or is in response to a court order, provided that the party owning the Confidential Information is notified prior to the disclosure and has the opportunity to seek appropriate protective orders;
- (b) necessary to establish contract rights under this Agreement; or
- (c) necessary to establish patent rights, copyrights or other intellectual property rights that are capable of being registered. However, the party so disclosing may disclose only after receiving the written consent of the Disclosing Party. This consent shall not be unreasonably withheld or delayed.

16.6 Notwithstanding any other provisions of this Agreement, the obligations specified in Section 16.4 above shall not apply to any information that:

- (a) is in the possession of the Receiving Party prior to the Effective Date of the Agreement without obligation of confidence;
- (b) is independently developed by the Receiving Party without breach of this Agreement;
- (c) is or becomes publicly available without breach of this Agreement, from the date of the public availability;
- (d) is rightfully received by the Receiving Party from a third party without obligation of confidence, from the date of receipt; or

- (e) is disclosed with the prior written consent of the Disclosing Party, but only to the extent expressly set forth in the written consent.

16.7 The distribution of products, including the customary and necessary supporting documentation, that inherently discloses the Confidential Information of either party, shall not in itself be considered a disclosure of Confidential Information.

16.8 Except for IBM Technology and IBM Technical Information provided to WDC or its Subsidiaries pursuant to Sections 4.0 and 5.0, which shall in every circumstance be treated as IBM Confidential Information under this Agreement, and any other pre-existing materials, which shall be treated as the Confidential Information of the party supplying such pre-existing materials if they are transferred as Confidential Information pursuant to this Section, all documents, drawings, and blueprints in any medium that are created by WDC or its Subsidiaries under this Agreement shall be treated as the Confidential Information of both parties. Notwithstanding the foregoing, any information relating to IBM Technology or IBM Technical Information that is contained in WDC-prepared documents, drawings, and blueprints in any medium shall be considered solely as IBM Confidential Information. Except as otherwise provided in Sections 3.3.4 and 6.2.3, all such media shall be labeled with the legend "IBM/WDC Confidential Information" and treated as the Confidential Information of the other party in accordance with the provisions of this Section 16.0.

16.9 Notwithstanding any other provision in this Section 16.0, no copyright license is granted in this Section by either party or its Subsidiaries to the other with respect to:

- (a) any program code, Software Tools, Manufacturing Software or Microcode; or
- (b) any document or other media that may be included in the information delivered under this Agreement.

16.10 IBM Confidential Information and WDC Confidential Information that was previously disclosed under the prior Agreement for the Exchange of Confidential Information, signed by the parties on March 13, 1996, and supplements SJ-004 and SJ-005 shall be treated as having been disclosed under this Section 16.0 as the Confidential Information of the Disclosing Party.

The provisions of this Section 16.0 shall supersede and replace, in all respects, the provisions and restrictions contained in any prior confidential disclosure agreements between WDC and IBM related to the subject-matter of this Agreement, and those prior confidential disclosure agreements shall have no further application to such activities and matters related to the subject-matter of this Agreement.

All of the provisions of this Section 16.0 and the obligation of nondisclosure with respect to Confidential Information, shall survive expiration, termination, or cancellation of this Agreement and remain in effect and binding on the parties until the confidentiality period specified in this Section has expired.

16.11 Notwithstanding the provisions of this Section 16.0, with respect to each successor desktop HDD program beyond [Product B] that WDC wishes to commit to buy IBM Components, and receive IBM Technology and Technical Assistance, from IBM, a due diligence review may be conducted by WDC under the terms of the prior Agreement for Exchange of Confidential Information dated March 13, 1996 ("AECI"), and supplement number SJ-005 dated March 6, 1998, as revised, except that the Initial Disclosure Date and Final Disclosure Date for supplement number SJ-005 shall be adjusted to coincide

with the period of the due diligence review. If, after performing a due diligence review for a successive desktop HDD program beyond [Product B], WDC elects in writing to continue to buy IBM Components and receive IBM Technology and Technical Assistance from IBM, any IBM Confidential Information received by WDC during such review will become subject to the other terms of this Section 16.0, which sections shall supersede and replace, in all respects, the provisions and restrictions contained in the AECI and supplement number SJ-005 with respect to IBM Confidential Information disclosed during the due diligence review.

16.12 To prevent the unauthorized disclosure of IBM Confidential Information, WDC and its Subsidiaries shall secure all tangible materials, documents, items of work in process and work products that embody IBM Confidential Information in locked files or areas providing restricted access.

16.13 WDC and its Subsidiaries shall maintain a log, which is subject to IBM's review, and tracks the access by its employees to each copy of IBM's specifications, drawings or other tangible materials that contain IBM Confidential Information. WDC and its Subsidiaries shall also limit access to terminals, computers and programs that have access to IBM Confidential Information only to those employees who have a strict need to know under this Agreement.

16.14 WDC and its Subsidiaries shall maintain adequate written procedures, and communicate such procedures to its employees, to prevent the loss of IBM Confidential Information. In the event of any such loss, WDC shall promptly notify IBM in writing of such loss.

17.0 CHANGE OF CONTROL

17.1 Upon a Change of Control, the party that is not the subject of a Change of Control may elect to terminate this Agreement or Contract by giving _____ days written notice (the "Termination Notice") at any time within _____ of the effective date of such Change of Control; provided, however, that in no event shall the effective date of such termination (at the end of such _____-_____ period) be prior to the effective date of the Change of Control; and provided further, that if the acquirer in the Change of Control is prevented by law from discussing this Agreement or Contract with the party that is not the subject of the Change of Control prior to the effective date of the Change of Control, then the effective date of such termination (at the end of such _____-day period) shall not be prior to _____ days after the effective date of the Change of Control and, if the subject of the Change of Control is WDC, IBM shall not be obligated to provide any IBM Technology, IBM Technical Information and Technical Assistance to the acquirer after the effective date of the Change of Control.

17.2 In the event of a Change of Control of WDC involving a party that is not a Subject Acquirer, this Agreement shall continue in effect subject, however, to (i) the elimination of Section 13.0, Notice of Additional Licenses, and (ii) with appropriate modifications made to Section 21.0, Administrative Provisions, for programs to which WDC has undertaken under this Agreement and with respect to any additional WDC programs if WDC notifies IBM of its desire to amend this Agreement for such additional programs either (i) _____ days prior to the effective date of the Change of Control, or (ii) prior to the date of the Termination Notice, whichever is later, provided WDC and IBM agree to all the terms and conditions of such programs and all fees due under this Agreement were paid prior to the effective date of the Change of Control, or prior to the date of the Termination Notice, and the Acquiring Party agrees in writing with IBM that it will comply with all of the provisions of this Agreement.

17.3 In the event of termination as a result of a Change of Control of WDC involving a Subject Acquirer, the Acquiring Party may continue manufacturing desktop Products for which a Supplement has been added or incorporated into this Agreement, provided that all fees due under this Agreement were paid prior to the date of the Notice of Termination, and provided that the Acquiring Party agrees in writing with IBM to comply with all the terms and conditions of this Agreement.

17.4 In the event of a termination pursuant to Section 17.3, the acquiring party shall (i) segregate all IBM Confidential Information, including IBM Technology and IBM Technical Information, provided by IBM to prevent disclosure to employees who are not producing desktop Products subject to this Agreement, (ii) return all IBM Confidential Information, including IBM Technology and IBM Technical Information, provided by IBM for which a Supplement has not been added to this Agreement, or which is not required to continue production of desktop Products as permitted by Section 17.3; and (iii) comply with any additional security provisions that may be reasonably required by IBM in the event of such Change of Control.

17.5 Notwithstanding the above, the OEM Agreement and Attachment H shall continue in full force and effect in accordance with their respective terms, if a Change of Control occurs.

18.0 MATERIAL BREACH

A material breach shall include, but not be limited to:

- (a) the failure by either party to make a required payment (including any interest on a required payment) that is due under this Agreement;
- (b) the improper use or disclosure in any material respect of:
 - (i) any IBM Intellectual Property, provided that, among other things, any use of IBM Intellectual Property beyond the scope or otherwise in violation of the licenses granted, or any use with non-IBM HSAs, shall be considered to be "improper use or disclosure in any material respect," or
 - (ii) any copyrighted items in a manner not permitted in this Agreement; and
- (c) the failure by WDC or its Subsidiaries to comply with the terms of Section 22.5 of this Agreement that pertain to assignment, transfer or reassignment of WDC's employees;

which in each case shall be subject to applicable cure periods for any termination of this Agreement or Contract for cause under Section 19.2 or of any licenses under Section 19.3.

A material breach shall also include any party's breach of any other material term of this Agreement.

19.0 TERM AND TERMINATION

19.1 TERM

Except as otherwise provided in Section 23.0, Execution, this Agreement shall be effective as of the date of the signature of the last party to execute this Agreement (the "Effective Date") and, unless sooner terminated as hereinafter provided, shall remain in effect for a period of time beginning on the Effective Date and ending on _____, or for a period of _____ years from the Effective Date, whichever is later (the "Initial Term"). Following the Initial Term, this Agreement may be extended through the Product End of Life for desktop Products that are successors to [Product B], if an amendment to this Agreement is executed by authorized representatives of IBM and WDC to add a new Supplement for such desktop Products. The "Initial Term" and any extended period shall be referred to in this Agreement as the "Term."

19.2 TERMINATION OF AGREEMENT

19.2.1 The parties may agree to mutually terminate this Agreement or Contract by written amendment as provided in Section 22.17.

19.2.2 A party may terminate this Agreement or Contract for cause in the event of a material breach by the other party of this Agreement as described in Section 18.0.

19.2.3 Either party may terminate this Agreement or Contract for cause if an Action in Bankruptcy occurs with respect to the other party.

19.2.4 Termination of this Agreement or Contract under Section 19.2.2 shall become effective sixty (60) days after written notice of the termination, unless the breaching party cures the default prior to the effective date of the written notice of termination. Such termination shall not be delayed or postponed as the result of any election made by either party to invoke the dispute resolution process pursuant to Section 20.0.

19.2.5 Except as otherwise provided in Section 6.3 (Residuals), all of the licenses to IBM Technology, IBM Technical Information and copyrights, that IBM grants to WDC, and related sublicenses that WDC grants to its Subsidiaries under this Agreement, shall terminate on the effective date of the expiration or termination of this Agreement or Contract and shall not survive such expiration or termination.

19.2.6 In the event of termination of this Agreement or Contract pursuant to this Section 19.0, Section 17.0 (Change of Control) or Section 22.13 (Severability), all amounts due and owing to the terminating party shall become immediately due and payable to it.

19.3 TERMINATION OF LICENSES

19.3.1 In addition to any other rights or remedies provided in this Agreement, IBM shall have the right to terminate all licenses that are granted to WDC, and sublicenses that WDC grants to its Subsidiaries, under this Agreement for any or all Intellectual Property if WDC or its Subsidiaries commits a material breach of this Agreement as provided in Section 18.0 and does not cure such failure, improper use or disclosure, or other material breach within sixty (60) days after its receipt of written notice from IBM to WDC specifying the nature of such material breach. In the event that any such material breach is not cured within sixty (60) days after receipt of written notice from IBM, unless otherwise specified in writing by IBM, all of the licenses to IBM Technology and IBM Technical Information and copyrights that IBM grants to WDC, and sublicenses that WDC grants to its Subsidiaries under this Agreement shall terminate at the end of such sixty (60) day period. In addition, notwithstanding anything to the contrary in this Agreement, IBM will be relieved of all of its obligations under Section 13.0, Notice of Additional Licenses, and Attachment A, on the effective date of the termination of such licenses.

19.4 EQUITABLE RELIEF

WDC acknowledges that the IBM Intellectual Property it receives and which is licensed by IBM to WDC is the highly valuable property of IBM, the unauthorized disclosure or use of which would cause IBM irreparable harm and damage that cannot be adequately compensated by monetary relief alone. Accordingly, in addition to other rights and remedies available to IBM, WDC agrees that IBM shall be entitled to equitable relief, including but not limited to injunctive relief in the event of a breach of its Intellectual Property rights or the unauthorized disclosure or use by WDC or its Subsidiaries of IBM's Confidential Information, to prevent WDC and its Subsidiaries from making any unauthorized dissemination of such IBM Confidential Information or from using any Intellectual Property in violation of the terms of this Agreement.

20.0 DISPUTE RESOLUTION

The parties will attempt in good faith to promptly resolve any controversy or claim arising out of or relating to this Agreement by negotiations between the parties. If a controversy or claim should arise, the administrators of this Agreement or their respective successors, or their superiors, will meet in person or phone, as they decide, at least once and will attempt to resolve the matter. Either Managing Coordinator of this Agreement may require the other to meet within seven (7) days at a mutually agreed upon time and location.

If a matter has not been resolved within ten (10) days of their first meeting, or a request for such meeting if no meeting occurs, the Managing Coordinators of this Agreement will refer the matter to Senior Executives of the parties, who shall have authority to settle the dispute. The Managing Coordinators of this Agreement may prepare and exchange memoranda stating the issue(s) in dispute and their positions, while summarizing the negotiations which have taken place between the parties and attaching relevant documents, if appropriate. The Senior Executives of the parties will either meet in person or discuss the matter by telephone at a mutually agreed upon time and/or location.

If a dispute that does not involve or relate to WDC's use or disclosure of IBM Technology or IBM Technical Information has not been resolved within fifteen (15) days of the first meeting or discussion by the Senior Executives or fifteen (15) days from the first request for such a meeting or discussion if no meeting or discussion has occurred, then upon the request of either party within three (3) days after such period, the parties will attempt to resolve such dispute by submitting it to expedited mediation in accordance with the following paragraph before the commencement of litigation.

If the parties cannot agree on a neutral mediator within three (3) days from receipt of a request to mediate, either party can request the American Arbitration Association appoint a neutral mediator with experience in the computer industry. Each party agrees to cooperate fully with the mediator and attempt to resolve the dispute. The proceedings of the mediator shall be privileged as settlement discussions and shall not be admissible in any subsequent litigation, and the proceedings and any suggestions or recommendations by the mediator shall be non-binding. The mediator shall make no records during the mediation and no report shall be issued. If the parties cannot promptly resolve their differences to their mutual satisfaction within fourteen (14) days of the request for mediation or after two (2) mediation sessions, whichever occurs first, either party shall be free to pursue any and all other remedies available to such party, including but not limited to, litigation. Costs of the mediator will be born equally by the parties.

Under no circumstances shall either party attempt to use the process set forth above for dispute resolution if the intended purpose of either party is primarily to delay an action at law or in equity against the other party. Notwithstanding anything to the contrary, nothing in the process set forth above shall prevent: (i) either party from issuing notices or other required communications prior to or during the dispute resolution process, (ii) IBM from seeking immediate injunctive relief for a dispute that involves or relates to WDC's use or disclosure of IBM Technology or IBM Technical Information, or (iii) either party from terminating this Agreement. If IBM seeks immediate injunctive relief, the parties may submit the matter involving IBM's request for injunctive relief to expedited mediation in accordance with the immediately preceding paragraph.

21.0 ADMINISTRATIVE PROVISIONS

21.1 MANAGING COORDINATORS

The Managing Coordinators for the parties are:

For IBM: For WDC:
- - - - -

Each party may change its Managing Coordinator, or designate a temporary acting Managing Coordinator, at any time during the term of this Agreement by notifying the Managing Coordinator for the other party in writing at the above address. No formal amendment to this Agreement is necessary to make this change.

The Managing Coordinator is not authorized to amend, alter, or extend this Agreement in any way. The Managing Coordinator or his designated alternate is only authorized to:

- (a) submit and receive requests, proposals, and responses;
- (b) schedule and coordinate visits by personnel of each party to facilities of the other party, or its Subsidiaries, in connection with activities under this Agreement;
- (c) supervise and record the exchange of Confidential Information in accordance with Section 16.0;
- (d) monitor schedules and progress of this Agreement; and
- (e) supervise the delivery of IBM Technology and Technical Assistance between the parties.

21.2 PAYMENTS, NOTICES, AND OTHER COMMUNICATIONS

21.2.1 All payments under this Contract shall be made by electronic funds transfer and shall be in U.S. dollars. Payments shall be deemed made on the date of electronic funds transfer.

Payments to IBM by electronic transfer of the fees described in Sections 9.2, 9.3 and 9.4 of this Contract shall be sent to:

- -----

IBM may change the above bank account and payee at any time upon five (5) days' written notice to WDC.

21.2.3 Except as otherwise provided for in this Contract, any notice or communication to be made or given to a party under to this Agreement shall be sent to that party by facsimile or by registered airmail, postage prepaid. Registered or certified mail may also be used where delivery is in the same country as mailing. Notices and communications shall be sent to the receiving party's address listed below or to another address designated in writing by the receiving party. Notices or other communications shall be deemed to have been given on the date of receipt.

WDC shall mail notices of IBM Technology Fees and IBM Technology Fee reports for the fees described in Sections 9.2, 9.3 and 9.4 of this Agreement to IBM at:

- -----

WDC shall mail all other notices and communications under this agreement to IBM at:

- -----

WDC shall mail a copy of all such notices and communications to IBM at:

Office of Counsel
International Business Machines Corporation

- -----

IBM shall mail notices and communications to WDC at:

- -----
Vice President, Law & Administration

- -----

22.0 GENERAL

22.1 NO ASSIGNMENT OR SUBCONTRACT

This Agreement shall be binding on and inure to the benefit of the parties to this Agreement, their Subsidiaries, and their respective successors and assigns.

Neither party may transfer, assign, delegate, license or sublicense this Agreement nor any of the rights, licenses or duties under this Agreement, including but not limited to any license rights obtained hereunder, without the prior written approval of the other party, except that: either party may (i) assign its rights to payments that will become due under the Agreement to a Subsidiary or another party, (ii) assign this Agreement to a Subsidiary with the prior written consent of the other party, which will not be unreasonably withheld or delayed, and (iii) delegate its duties to a Subsidiary that it reasonably believes will be capable of performing such party's duties under this Agreement; and WDC may assign this Agreement pursuant to the provisions of Section 17.0. Any assignment or delegation pursuant to this paragraph shall not relieve either party of its obligations under this Agreement. Each party guarantees the performance of its Subsidiaries under this Agreement, and any claim against a Subsidiary may be brought against the parent. Any assignment or delegation that is inconsistent with this Section is void and shall have no effect.

Neither party may subcontract any work to be performed under this Agreement without the prior written approval of the other party, which approval will not be unreasonably withheld or delayed. However, if a party does subcontract with the consent of the other party, the subcontracting party shall be solely responsible for the performance of the subcontractor, and any such subcontractor shall be bound and subject to all confidentiality and intellectual property licensing provisions in this Agreement and shall agree to use any Confidential Information and IBM Intellectual Property provided to it solely in a manner that is consistent with WDC's licenses to IBM Intellectual Property. Subcontracting work shall not relieve either party of its obligations under this Agreement.

22.2 PUBLICITY/TRADEMARKS

Neither party may disclose the terms of this Agreement in any publication or marketing materials without the prior written consent of the other party. The parties agree that any publicity regarding the subject matter of this Agreement will be duly coordinated by and between the parties. Each party hereto agrees not to disclose the terms and conditions of this Agreement other than to its Subsidiaries, independent accountants or legal counsel except as may be required by law or governmental regulation, without the express written consent of the other party.

Nothing contained in this Agreement shall be construed as transferring any right to use in advertising, publicity, or other promotional activities any name, trade name, trademark, or other designation of either party to this Agreement (including any contraction, abbreviation, or simulation of any of the foregoing).

22.3 NON-EXCLUSIVE AGREEMENT

Subject to the notice provisions of Section 13.0, nothing in this Agreement prevents either party from entering into similar agreements or discussions with others, and nothing in this Agreement prevents either party from developing, making, procuring, marketing and/or maintaining products, now or in the future, which compete or incorporate features that may be competitive with the Products included herein.

22.4 INDEPENDENT RELATIONSHIP OF THE PARTIES

Each party shall be responsible for its own employees. No employee of either party shall be deemed an employee of the other party. Matters governing the terms and conditions of the employment of any employee, such as supervision, work schedules, wage rates, tax withholdings, and benefits, are exclusively the responsibility of the employer of that employee.

Except as otherwise provided in this Agreement, each party shall bear its own expenses incurred in connection with this Agreement, including those expenses incurred prior to the Effective Date.

WDC is responsible for acquiring and paying for everything WDC uses to manufacture Products, including without limitation all capital assets, tooling and custom items needed to manufacture Products.

2.5 ASSIGNMENT, TRANSFER OR REASSIGNMENT OF EMPLOYEES

22.5.1 [Deleted]

22.5.2 [Deleted]

22.5.3 [Deleted]

22.5.4 [Deleted]

22.5.5 [Deleted]

22.5.6 [Deleted]

22.6 REPRESENTATIONS AND WARRANTIES

Other than as expressly provided in this Agreement, neither party makes any representations or warranties nor assumes any liabilities in connection with this Agreement.

ALL EQUIPMENT, SOFTWARE PROGRAMS, MATERIALS, SERVICES, TECHNOLOGY, OR INFORMATION FURNISHED BY EITHER PARTY PURSUANT TO THIS AGREEMENT IS PROVIDED ON AN "AS IS" BASIS, AND EACH PARTY DISCLAIMS ALL REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE. HOWEVER, THIS PROVISION SHALL NOT APPLY TO ANY EXPRESS WARRANTIES MADE BY IBM UNDER THE OEM AGREEMENT AND ATTACHMENT H WITH RESPECT TO IBM COMPONENTS PROVIDED TO WDC BY IBM.

IBM makes no representation or warranty that WDC or its Subsidiaries will be able to manufacture HDDs using IBM Intellectual Property. All specifications, designs, road maps and other documents that IBM provides are subject to change without any prior notice.

22.7 COMPLIANCE WITH LAWS AND REGULATIONS

Both parties and their Subsidiaries shall comply with all applicable United States and foreign laws in performing their duties under this Agreement. This includes without limitation all laws and regulations related to the export of technical information and related products.

22.8 GOVERNING LAW, VENUE, AND JURY TRIAL WAIVER

This Agreement and any agreement incorporated into it shall be construed in accordance with the substantive laws of the State of New York, and by the copyright and patent laws of the United States of America. Venue for any action arising out of this Agreement shall be solely in the U.S. District Court of the Northern District of California. Both parties waive their right to a jury trial in any action arising out of or related to this Agreement.

22.9 EXCLUSION OF CONSEQUENTIAL DAMAGES

Except for any violations or breaches of this Agreement pertaining to Intellectual Property rights, neither party or its Subsidiaries shall be liable for any consequential, incidental, special or punitive damages arising out of or related to this Agreement, including lost revenue, profits, or savings, whether the claim is for breach of contract, warranty or tort (including negligence), failure of a remedy to accomplish its purpose, or otherwise, even if notified in advance of the possibility of such damages. Neither party or its Subsidiaries shall be liable for any third party claims against the other party for any losses or damages, including without limitation loss of or damage to records or data.

22.10 FORCE MAJEURE

A party to this Agreement shall be excused from the fulfillment of any obligation under this Agreement for so long as such fulfillment shall be hindered or prevented by any circumstances of force majeure such as, but not limited to, acts of God, war, riot, strike, lockout, fire, flood, other natural catastrophe, shortage of materials or transportation, national or local government regulations, or any other circumstances outside of its control. However, the affected party must promptly notify the other party of the condition that delays or prevents its performance. The affected party must also take reasonable steps to perform despite the condition, or to correct or repair the condition that delays or prevents its performance.

22.11 NO SOLICITATION

To the extent permitted by law, during the Term of this Agreement, and for _____ thereafter, WDC's HDD development, manufacturing, marketing and qualification business groups shall not solicit or encourage, or use any third party to solicit or encourage, any IBM employee who has provided IBM Technology or Technical Assistance, directly or indirectly, to WDC under this Agreement and is employed by IBM in a development or manufacturing position that involves, or relates or pertains to, disk drive technology to discontinue his or her employment relationship with IBM.

To the extent permitted by law, during the Term of this Agreement, and for _____ thereafter, IBM's Storage Systems Division's HDD development, manufacturing, marketing and qualification business groups shall not solicit or encourage, or use any third party to solicit or encourage, any WDC employee who has received IBM Technology or Technical Assistance, directly or indirectly, from IBM under this Agreement and is employed by WDC in a development position for its 3.5" form factor, desktop HDD programs to discontinue his or her employment relationship with WDC.

For the purpose of interpretation of this Section 22.11, the mere publication by either party of an advertisement in a newspaper, magazine or web site as to availability of a job opening or other general solicitation that does not target the employees of the other party will not be considered as solicitation.

22.12 AGREEMENT INTERPRETATION

The title and headings in this Agreement are for convenient reference and are not intended to change or supplement the meaning of the terms of this Agreement. References to sections of this Agreement followed by a single digit shall include the entire section of the Agreement, including all subsections; references to subsections shall include all subparts of such subsections. References in this Agreement to a number of days, weeks, months, or years, shall mean calendar days, weeks, months, or years, unless otherwise stated. This Agreement shall be construed as having been jointly drafted by both parties after meaningful negotiation.

22.13 SEVERABILITY

If any provision of this Agreement is found by any governmental authority or competent judicial authority to be invalid, illegal, or unenforceable in any respect, and such invalidity, illegality or unenforceability affects the economic benefits, intellectual property provisions or licensing provisions of this Agreement, the party affected by such action may terminate this Agreement. If such action does not affect the economic benefits, intellectual property provisions or licensing provisions, the remainder of such provisions shall survive to the extent it is not so declared, and the validity, legality and enforceability of the other provisions hereof shall not in any way be affected or impaired thereby, unless such action would materially affect any of the rights or obligations of either party, in which case either party may terminate the Agreement.

22.14 SURVIVAL

In addition to Sections of this Agreement where survival rights are specified, the rights and obligations of Sections 6.3, 8.1.6, 8.0, 9.3, 10.0, 11.3.4, 11.5, 12.0, 14.0, 15.0, 16.0, 19.4, 20.0, 22.2, 22.4, 22.5, 22.6, 22.7, 22.8, 22.9, 22.11, 22.14, 22.15, 22.17 and 22.18 shall survive and continue after any expiration or termination of this Agreement or Contract and shall bind the parties and their legal representatives, successors and assigns.

22.15 FAILURE TO ACT

Any delay or failure of a party to this Agreement to exercise any right, power, remedy, or privilege hereunder, or failure to strictly enforce any breach, violation, default, failure to perform, provision or condition shall not impair any such right, power, remedy, or privilege, nor shall it constitute a waiver thereof or acquiescence thereto unless explicit written notice is provided. Any waiver, permit, consent, or approval of any kind regarding any breach, violation, default, failure to perform, provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. No partial waiver of any such right, power, privilege, breach, violation, default, failure to perform, provision or condition on any one occasion shall preclude any other or further exercise thereof or constitute a waiver thereof or acquiescence thereto on any subsequent occasion unless clear and express notice thereof in writing is provided.

22.16 PROHIBITED DISCUSSIONS

The parties affirm that their respective marketing policies or activities, or pricing information with respect to HDDs, relative to the subject matter of this Agreement shall not be discussed or exchanged between them.

22.17 SOLE AGREEMENT AND AMENDMENTS

The terms of this Agreement, and any agreements incorporated herein by reference, are the complete and exclusive statement of the agreement between the parties on this subject matter. They supersede any prior or contemporaneous oral or written statements, agreements, or representations relating to the subject matter of this Agreement.

The terms and conditions of the main body of this Agreement, including but not limited to Section 19.0, shall control and prevail over any inconsistent or contradictory term or condition in any Attachment to this Agreement or in any purchase order, shipping document, invoice or similar document passing between the parties pursuant to this Agreement; provided, however, that if an Attachment explicitly indicates that one or more terms thereof supersede identified provisions of this Agreement, such terms in such Attachment shall prevail. Notwithstanding the foregoing, but excluding Section 19.0, this paragraph shall not apply to either the OEM Agreement or Attachment H, except for Amendment number 16 of Attachment H.

The parties understand that there are no other oral or written collateral promises, representations, agreements, or understandings other than those expressly stated in this Agreement. Each party warrants that there were no inducements, express or implied, relied upon as a condition of entry into this Agreement.

This Agreement may not be changed or supplemented except by a separate written amendment signed by an authorized representative of each party. No conflicting or additional terms in any purchasing acknowledgment, or other form not specifically incorporated by reference into this Agreement shall be considered part of this Agreement. Any such terms are void and shall be treated as having been objected to by the parties.

22.18 AGREEMENTS WITH EMPLOYEES AND OTHERS

Each party shall obtain and maintain appropriate agreements with its Subsidiaries, employees and others, including subcontractors whose services may be required, that are sufficient to enable such party to comply with all the provisions of this Agreement. These agreements shall, among other things, contain terms that bind and make such Subsidiaries, employees and others subject to all confidentiality and intellectual property licensing provisions in this Agreement. All such Subsidiaries, employees and others shall also agree to use any Confidential Information and IBM Intellectual Property provided solely in a manner that is consistent with WDC's licenses to IBM Intellectual Property.

22.19 ATTACHMENTS

The following are a part of this Agreement:

- (a) Attachment A: Supplements
- (b) Attachment B: HDD Product Information

Attachment B-1	[Product A]
Attachment B-2	[Product B]

- (c) Attachment C: Manufacturing Software, Software Tools and Microcode
- (d) Attachment D: IBM Technology
- (e) Attachment E: IBM Technology Delivery Schedule
- (f) Attachment F: Core IBM Technology
- (g) Attachment G: OEM Sales and Purchase Agreement between International Business Machines Corporation and Western Digital Corporation
- (h) Attachment H: Agreement for Fabrication and Purchase of Products (Original Equipment Manufacturer) between International Business Machines Corporation and Western Digital Corporation dated April 8, 1993, as amended (including Amendment No. 16 thereto, the "IMD 3-Piece Chip Set Agreement")

23.0 EXECUTION

This Agreement will not become binding, and neither party will have any obligations under its terms, unless and until IBM Board of Directors approval is obtained. In the event that IBM Board of Directors approval is not obtained by July 31, 1998, this Agreement shall be null and void. All Confidential Information, including but not limited to IBM Technology and IBM Technical Information, which will be subject to this Agreement when it becomes effective, shall continue to be subject to the Agreement for Exchange of Confidential Information ("AECI") between the parties dated March 13, 1996, and supplement number SJ-005 to such AECI, until approval is obtained from IBM's Board of Directors. Once such approval is obtained, this Agreement shall become effective and binding on the parties.

More than one counterpart of this Agreement may be executed by the parties, and each fully executed counterpart shall be deemed an original. WDC and IBM indicate their agreement to the terms of this Agreement by their authorized representatives signing below.

INTERNATIONAL BUSINESS MACHINES CORPORATION

WESTERN DIGITAL CORPORATION

By: /s/ JAMES R. BOOTH

By: /s/ A. KEITH PLANT

Name: James R. Booth

Name: A. Keith Plant

Title: Vice President, World Wide Materials

Title: Vice President, Business Development

Date: June 7, 1998

Date: June 7, 1998

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CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
=====

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT A

SUPPLEMENTS

HDD Projects: [Product A] and [Product B].

HSA Technology Package: refer to Attachment D to Agreement.

[Balance Deleted]

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT B-1

[Deleted]

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT B-2

[Deleted]

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT C

MANUFACTURING SOFTWARE, SOFTWARE TOOLS AND MICROCODE

[Deleted]

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT D

IBM TECHNOLOGY

PHASE 1 ([PRODUCT A] AND [PRODUCT B]):

The following IBM-specified items, as available, are included in the IBM Technology that IBM plans to make available to WDC under this Agreement:

[Deleted]

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT E

IBM TECHNOLOGY DELIVERY SCHEDULE

CHECKPOINT

DATE

Delivery of preliminary specifications and drawings for mechanical components for [Product A] (i.e., specifications and drawings for mechanical components in IBM's current Titan desktop HDD product)

First Steering Committee Meeting

Second Steering Committee Meeting

Third Steering Committee Meeting

IBM's scheduled LA date for [Product A]

IBM's scheduled LA date for [Product B]

_____ *

- -----
* Dates are subject to change by mutual agreement.

OEM COMPONENT SUPPLY
AND TECHNOLOGY LICENSING AGREEMENT

ATTACHMENT F

CORE IBM TECHNOLOGY

[Deleted]

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CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
=====

OEM SALES AND PURCHASE

AGREEMENT

BETWEEN

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND

WESTERN DIGITAL CORPORATION

JUNE 7, 1998

=====

CONFIDENTIAL.

CERTAIN INFORMATION HAS BEEN REDACTED.

CONFIDENTIAL TREATMENT REQUESTED.

=====

OEM SALES AND PURCHASE
AGREEMENT

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CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
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OEM SALES AND PURCHASE AGREEMENT

This is an OEM Sales and Purchase Agreement ("Agreement") dated June 7, 1998, between Western Digital Corporation ("WDC") and International Business Machines Corporation ("IBM"). WDC is a Delaware corporation with its principal place of business at 8105 Irvine Center Drive, Irvine, California 92618. IBM is a New York corporation with its principal place of business at New Orchard Road, Armonk, New York 10504.

WHEREAS, WDC wishes to manufacture future hard disk drives (HDDs) for the desktop platform that contain certain head products designed, developed and manufactured by IBM that use IBM's leading giant magnetoresistive ("GMR") and future generation head technology; and

WHEREAS, WDC wishes to purchase from IBM certain head gimbal assemblies (HGAs) and other components from IBM for use in WDC's manufacture of desktop HDD products; and

WHEREAS, if WDC desires IBM's assistance in procuring components for, or assembling, head stack assemblies, IBM will procure some or all of the components used with head gimbal assemblies to create head stack assemblies and assemble or supervise the assembly of such components and head gimbal assemblies into head stack assemblies;

WHEREAS, IBM wishes to continue selling components which incorporate its leading technology to other HDD manufacturers; and

WHEREAS, in order to obtain an intended stable source of supply of IBM components, WDC wishes to purchase in volume certain IBM components;

NOW THEREFORE, in consideration of the promises and the mutual covenants contained herein, IBM AND WDC AGREE AS FOLLOWS:

1.0 Purpose and Description of the Agreement

1.1 The purpose of this Agreement is for IBM and WDC to enter into a business relationship for the purchase of IBM HGAs and associated components and the integration of such components into desktop Products.

2.0 Definitions

2.1 "Acceptance" shall mean the date the Product is accepted by WDC as further described in Section 14.0.

- 2.2 "Agreement" shall mean this OEM Sales and Purchase Agreement and its Exhibits.
- 2.3 "Assembly Kits" shall mean those parts which make up a [Product A] or [Product B] HDD and which are listed on the bill of materials at the time of WDC's purchase of such kits.
- 2.4 "Firm Period" shall mean that period of time during which WDC's Product orders are firm as further described in Section 7.0.
- 2.5 "FOB Point" shall mean either Singapore or Hong Kong.
- 2.6 "GA" or "General Availability" shall mean _____.
- 2.7 "HDD" shall mean hard disk drive.
- 2.8 "HGAs" shall mean specific IBM Head Gimbal Assemblies sold by IBM to WDC under this Agreement, and which are further described in Exhibit 1 of this Agreement.
- 2.9 "HSAs" shall mean specific IBM head stack assemblies (i.e., HGA and non-HGA materials) sold by IBM to WDC under this Agreement, and which are further described in Exhibit 1 of this Agreement.
- 2.10 "IMD Agreement" shall mean the Agreement for Fabrication and Purchase of Products (Original Equipment Manufacturer) between IBM (IMD) and WDC, dated April 8, 1993, as amended (including Amendment No. 16 thereto).
- 2.11 "Initial Delivery Date" shall mean the date on which IBM completes in substantial part the delivery to WDC of preliminary specifications and drawings for mechanical components for [Product A] (i.e., specifications and drawings for mechanical components in IBM's current ___ HDD product).
- 2.12 "[Product A]" shall mean the IBM-designed 3.5" form factor, desktop HDD product that is described in Exhibit 2 of this Agreement.
- 2.13 "LA" or "Limited Availability" shall mean _____.
- 2.14 "Managing Coordinator" shall mean each of the individuals who are named in Section 25.1 of this Agreement and are responsible for the oversight of this Agreement.
- 2.15 "OEM" shall mean original equipment manufacturer.
- 2.16 "PCBA" shall mean the IBM-specified printed circuit board assembly that WDC acquires from IBM under this Agreement, and which is further described in Exhibit 1 to this Agreement.
- 2.17 "[Product B]" shall mean the IBM-designed 3.5" form factor, desktop HDD Product that is described in Exhibit 2 of this Agreement.

- 2.18 "Product(s)" shall mean HGAs and non-HGA materials and certain agreed upon mechanical and electrical components including a 3-piece Chip Set purchased under the IMD Agreement, all of which are further defined in Exhibit 1 of this Agreement.
- 2.19 "Product End of Life" shall mean the last Ship Date of a Product.
- 2.20 "Program Quarter" or "PQ" shall mean the first three (3) calendar months or each three (3) consecutive calendar months thereafter of any Product program.
- 2.21 "RMA" shall mean Return Materials Authorization as further described in Section 14.0 of this Agreement.
- 2.22 "Ship Date" shall mean the date a Product is shipped from IBM to WDC.
- 2.23 "Specifications" shall mean a Product's specifications as further described in Exhibit 2 of this Agreement.
- 2.24 "Subsequent Payment" shall mean the payment that WDC pays to IBM as further described in Exhibit 1 of this Agreement.
- 2.25 "Subsidiary(ies)" shall mean a corporation, company, limited liability company or other entity:
- (a) more than fifty percent (50%) of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, now or hereafter, owned or controlled, directly or indirectly, by a party hereto; or
 - (b) which does not have outstanding shares or securities, as may be the case in a partnership, joint venture, or unincorporated association, but more than fifty percent (50%) of whose ownership interest representing the right to make the decisions for such corporation, company or other entity is, now or hereafter, owned or controlled, directly or indirectly, by a party hereto;
- but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or control exists.
- 2.26 "3-piece Chip Set" shall mean the IBM-specified, application-specific integrated circuit chip set that WDC acquires from IBM under the terms and conditions of the IMD Agreement.
- 2.27 "VT-2" shall mean _____.

3.0 Purchase Orders

3.1 The terms of this Agreement shall apply to all purchase orders placed by WDC and accepted by IBM during the term of this Agreement as set forth in this Section 3.0 for the purchases of Products as further described in Exhibit 1 hereto. Exhibit 1 may be updated by written agreement to reflect new Products and the associated Specifications. Changes to the Product Specifications established in Exhibit 1 are

subject to Section 20.0 (Specification, Engineering and Other Changes). The terms of this Agreement govern and prevail over the terms of any such purchase orders. WDC shall be liable under this Agreement only for those Products covered by such purchase orders.

3.2 Subsidiaries of WDC may purchase Products under this Agreement, and WDC agrees that any such Subsidiary will be bound by the term and conditions of this Agreement and guarantees their performance.

3.3 WDC represents and warrants that Products will be integrated or incorporated into WDC's desktop HDD products. An incidental quantity of Product may be used for testing and development by WDC and WDC's customers. Any transfer of pre-production Product by WDC to a third party requires IBM's prior written consent and is subject to the provisions of a confidentiality agreement established between such third party and IBM.

3.4 WDC may purchase prototype Assembly Kits as further defined in Exhibit 1.

3.5 WDC may order Product by sending a purchase order to: IBM Corporation, Bldg. 14, Dept. M8LA, 5600 Cottle Road, San Jose, CA 95193. Minimum purchase order quantities and multiples may apply. WDC will exercise reasonable efforts to provide at least _____ days lead time from the date of the purchase order to the requested shipment date on all purchase orders. On the first day of each calendar quarter, WDC will use reasonable efforts to provide IBM with a purchase order covering shipments for the following calendar quarter.

3.6 WDC may order a 3-piece Chip Set as further described in Exhibit 1 and under the terms and conditions of the IMD Agreement.

3.7 IBM will provide a written acceptance notification to WDC for all accepted purchase orders within four (4) business days. The acceptance will describe the Product ship dates, the location from which the shipment will originate and the committed quantity of Products.

4.0 Term

This Agreement shall be effective as of the date of the signature of the last party to execute this Agreement (the "Effective Date") and, unless sooner terminated as hereinafter provided, shall remain in effect for a period of time beginning on the Effective Date and ending on the date of Product End of Life for [Product B], or for a period of _____ from the Effective Date, whichever is later (the "Initial Term"). Following the Initial Term, this Agreement may be extended through the Product End of Life for desktop Products that are successors to [Product B], if an amendment to this Agreement is executed by authorized representatives of IBM and WDC. The Initial Term and any extended period shall be referred to in this Agreement as the "Term."

5.0 Forecasts

5.1 WDC agrees to provide IBM with an operating forecast which is a _____ rolling forecast of WDC's Product and HGA requirements at the beginning of each _____, or more frequently if market demand changes. IBM agrees to provide WDC with a _____ operating supply forecast, with the first _____ individually broken out and the remaining period outlined by _____. These forecasts are non-binding, and do not create any obligation for WDC to purchase these quantities or for IBM to supply them to WDC.

5.2 Additionally, on a _____ basis, WDC will provide a program forecast which is a full life volume forecast, by _____, for each committed program.

5.3 For strategic planning, on a _____ basis (_____), WDC will provide a _____ year strategic volume outlook by _____. IBM will respond with a _____ year WDC available capacity forecast. WDC and IBM will meet to discuss any differences between these two forecasts and possible solutions to any problems posed by such differences.

6.0 Price

6.1 The prices for Products, including any applicable discounts, are as specified in Exhibit 1. The prices shown in Exhibit 1 shall not increase for purchase orders accepted by IBM for shipment during the Program Quarter.

6.2 The parties will meet at least once per calendar quarter to discuss prices and, upon mutual agreement, Exhibit 1 may be updated and amended by IBM issuing a price release letter to WDC containing any revised prices. Such new prices will become effective on their effective date unless WDC notifies IBM of an error in the price release letter within _____ days of receiving it. The competitive environment in the Product's market will be taken into consideration when adjusting prices.

7.0 Order and Order Changes

7.1 Firm Period

WDC will provide firm Product orders (including specifying the number of heads per HSA) for a specified period (hereinafter "Firm Period") before Ship Date. Purchase order changes made during the Firm Period may subject WDC to liability. The initial Firm Periods for all Products under this Agreement will be _____ days. WDC and IBM will work together to reduce cumulative product cycle time for Products under this Agreement, and as product cycle time is reduced, the parties agree to meet and negotiate a new Firm Period for any Product whose cycle time has been reduced. The parties will negotiate a new Firm Period for a Product at Product checkpoint and the parties further agree to meet each January and July to discuss whether, as a result of product cycle time reduction, the Firm Period should be changed.

7.2 Outside Firm Period

With advance notice exceeding the Firm Period, WDC may reschedule the timing of a Product shipment or the quantity of Products in a shipment, and WDC may cancel a Product shipment without liability. Any IBM build ahead inventory is at IBM's risk outside the Firm Period.

7.3 Inside Firm Period

[Deleted]

7.4 Assemble to Order and Mix Changes

In order to accommodate market demand and minimize inventory, WDC may make mix changes (changing the number of heads per HSA) to orders within the Firm Period, and IBM will make reasonable efforts to accommodate those mix changes provided that the mix changes do not alter the overall HGA volumes. Nothing in this Section modifies or affects the WDC liability as stated in Section 7.3 above, except that the parties agree that if WDC attains or exceeds its HGA quantities, there will be no liability for any changes in the mix of HSAs, provided however, that WDC, in the next Program Quarter, consumes any unused non-HGA materials remaining after any such mix changes.

7.5 Upside Volume Capability Strategy

The in-process buffer and product staging buffer will be approximately _____ inventory buffer. IBM will maintain a Just-in-Time (JIT) hub in _____ with _____ inventory, which is part of the _____ inventory buffer. The parties will work together to ensure that all appropriate tax issues are resolved. In the event that the tax issues are not resolved, IBM has no obligation to maintain a JIT Hub in _____. In that event, the parties will mutually agree to an alternative solution. In the event that the buffer stock is consumed, IBM will make reasonable efforts to restore the buffer stock within _____.

7.6 Reschedule Price Changes

In the event that a Product shipment is rescheduled from the current Program Quarter into the next Program Quarter, the current Program Quarter pricing will apply to all such Products unless the parties agree otherwise. In the event that WDC wishes to reschedule from a future Program Quarter into the current Program Quarter, the price shall be at the future Program Quarter unless the parties agree otherwise. IBM recognizes that there may be times when it is beneficial for the parties to reschedule and, therefore, the parties agree to negotiate in good faith, the price on a case-by-case basis.

8.0 Allocation

[Deleted]

9.0 Sales Inside and Outside of the United States

9.1 For the small number of U.S. sales (sales of Products which IBM ships to WDC and WDC takes title within the U.S.) such as prototype Assembly Kits, the contract of sale for Products purchased under this Agreement will be between IBM Corporation and WDC, and will be under the terms of this Agreement.

9.2 For non-U.S. sales (sales of Products which IBM ships to WDC and title passes to WDC outside the U.S.), the contract of sale for Products purchased under this Agreement will be between the IBM legal entity owning the manufacturing plant ("the Plant") that will supply Products to WDC and the applicable WDC legal entity purchasing the Products. It is agreed that all such purchase orders will incorporate the terms of this Agreement whether expressly referenced or not, and will only be accepted on this basis. Purchase orders will be accepted by the Plant when it issues an acceptance document thereby creating the contract of sale for the Products. WDC will be notified of any such acceptance by IBM's administrative services personnel. IBM and WDC each reserve the right to enforce the provisions of this Agreement in lieu of such Plant or legal entity.

10.0 Shipment and Delivery

10.1 All Products shall be identified and packed adequately to arrive at the destination in an undamaged condition. All shipping documents and shipping containers shall be plainly marked with the complete "ship to" address, purchase order number, quantity, description of Products, and any special markings required by WDC and agreed to by the parties.

10.2 IBM agrees to acknowledge each purchase order within _____ business days of receiving it. IBM or its designee, will make reasonable efforts, within _____ business day, to acknowledge Product mix changes which do not alter overall HGA volumes.

10.3 All shipments to WDC shall be from the FOB Point. Title and risk of loss will transfer to WDC when the Product is tendered to the carrier at such FOB Point. WDC is responsible for all freight and related costs (e.g., insurance) from the FOB Point to WDC's location.

10.4 Purchase orders placed by WDC and accepted by IBM prior to the end of the Term and for which delivery is made after the end of the Term, shall continue to be governed by the terms and conditions of this Agreement.

11.0 Payment and Invoices

11.1 Upon tender to the carrier of Products at the FOB Point, IBM will submit invoices to WDC showing invoice number and date, remit-to address, purchase order number, item number, description of item, price, each applicable tax and extended totals.

11.2 All payments shall be paid by WDC to IBM by electronic funds transfer to an IBM-designated bank account and shall be in U.S. Dollars. WDC's payment is due in full (invoiced amount) to IBM within _____ days from the date of IBM's invoice (Net___). WDC may pay IBM a resulting amount equal to a _____ percent (___%) discount from the invoiced amount if WDC ensures such payment is received by IBM within _____ days from the date of IBM's invoice.

Payments to IBM by electronic transfer of funds for IBM's sale of prototype Assembly Kits to WDC in the U.S. shall be sent to:

- -----

Payments to IBM by electronic transfer of funds for Subsequent Payments as described in Exhibit 1 and for the sale of Products to WDC outside of the U.S. shall be sent to:

- - - - -

Remit to:
Pay U.S. Dollars without deduction by authenticated, value-dated day/month/year,

- - - - -

IBM may change the above bank account(s) and payee(s) at any time upon five (5) days' written notice to WDC.

Any payments to WDC under this Agreement for the shall be made by electronic funds transfer and shall be in U.S. dollars and shall be sent to:

- - - - -

11.3 WDC will provide IBM with applicable tax exemption documentation and IBM agrees to apply such documentation as appropriate. All applicable federal, state and local sales, use and like taxes shall be noted separately on IBM's invoices. WDC is responsible for all applicable taxes related to Products except for taxes based on IBM's net income.

11.4 Payment of invoice amounts shall not constitute Acceptance of Products and will be subject to adjustment for errors, shortages or defects in Products.

12.0 Interest

Either party may charge the other party interest on any overdue payment required to be paid under this Agreement. If either party decides to charge interest, interest will accrue on the date a payment becomes due. The interest rate shall be an annual rate equal to two percentage points more than the prime interest rate quoted by the head office of Citibank, N.A., New York, at the close of banking on the date the required payment is due, or on the first business day after that date if such date falls on a non-business day. If this rate exceeds the maximum legal rate where a claim for interest is being asserted, it will be reduced to the maximum legal rate.

13.0 Audit

13.1 WDC will maintain relevant records to support all payments made to IBM under, and to show its compliance with, the terms of this Agreement. Such records will be retained in accordance with WDC's normal record retention policies; however, for payments made to IBM, records supporting such payments will be maintained by WDC for a minimum period of _____ from the date of payment to IBM.

13.2 Upon request from IBM, WDC will provide written assurances pertaining to WDC's performance of its obligations under this Agreement that are reasonably satisfactory to IBM. Upon request, WDC will make available to IBM documents and other information (but excluding documents

containing WDC confidential information that have not been previously provided by WDC to IBM), that are reasonably necessary to verify WDC's compliance with the terms of this Agreement.

13.3 IBM may also request that an audit be performed of certain specified provisions of the Agreement by an independent auditor. If IBM elects to have such an audit performed, WDC will make available financial, technical and/or other information and records to such independent auditor. The independent auditor selected shall be selected and compensated by IBM. Prior to beginning such audit, the independent auditor will enter into an agreement with WDC to maintain in confidence WDC's confidential information. The independent auditor will promptly conduct and issue an audit report to WDC and IBM. If the independent auditor determines that WDC has failed to comply with any of the audited terms of this Agreement, such independent auditor shall only disclose to IBM and WDC the results of the audit without revealing WDC's confidential information. If the independent auditor determines that WDC owes any monies to IBM under this Agreement, such auditor shall only disclose in its audit report to IBM and WDC the (i) amounts that are due, but have not been paid, by WDC to IBM under this Agreement, together with any interest due thereon; and (ii) a calculation as to how such amounts were actually determined, if applicable.

13.4 If an audit discloses that WDC has underpaid IBM any amount due under the Agreement, WDC shall promptly pay to IBM the amount of such underpayment, including any interest due thereon. If the results of an audit reveal that WDC has underpaid Subsequent Payment to IBM by an amount that exceeds the cost of the audit, then WDC shall promptly reimburse IBM for all expenses that it has incurred in connection with the audit, and promptly pay to IBM all amounts that are due and owing.

13.5 In the event that WDC cancels or reschedules a quantity of Products and IBM holds WDC liable, pursuant to Section 7.0, IBM shall, upon WDC's written request and sixty (60) days notice, during normal business hours, provide access, for such period as may reasonably be required, to the relevant records used to validate IBM's liability claim for the three (3) month period preceding such written notice, to an independent accounting firm (mutually acceptable to both parties and compensated by WDC) for purposes of audit. Such accounting firm shall be required to sign an agreement with IBM protecting IBM's confidential information and shall be authorized by IBM to report to WDC only the amounts due, payable or credited for the period examined, along with such related information as is reasonably necessary to provide WDC with a proper understanding of the basis for its conclusions, subject to the accounting firm's obligations of confidentiality.

14.0 Product Inspection, Acceptance and Warranty

14.1 WDC and IBM will develop a mutually acceptable Product source inspection which will be performed at the Product manufacturing site prior to shipment to WDC. The objective of such source inspection includes, but is not limited to (i) identifying defects in the Products' material and workmanship, (ii) ensuring the Products meet the Specifications, and (iii) minimizing WDC's Product handling at the FOB Point.

IBM warrants that each Product, when shipped to WDC, is free from defects in material and workmanship and meets the applicable Specifications. Any such source inspection, incoming inspection, testing or qualification by WDC shall in no way affect IBM's obligation to supply, or WDC's obligation to accept delivery of, Products that fully conform to their Specifications.

WDC will promptly notify IBM of any shipping damage prior to accepting the Products. In the absence of such notification within _____ hours of receipt of the Products, WDC will be deemed to have accepted the Products.

14.2 The parties agree that failures that occur during HDD assembly are likely to fall into three categories: those attributable to IBM; those attributable to WDC and those failures upon which the parties cannot agree to whom to assign responsibility. IBM and WDC agree that the following process will be followed:

14.2.1 Failures Attributable to IBM:

[Deleted]

14.2.2 Failures Not Attributable to IBM:

[Deleted]

14.2.2.1 [Deleted]

14.2.2.2 [Deleted]

14.2.3 Failures for Which There is No Agreement:

[Deleted]

15.0 Material and Workmanship

15.1 For those failures that are solely attributable to Product defects in material or workmanship or failing to meet Specifications, IBM will work with WDC to identify the cause of failure and to develop a mutually agreeable action plan to address the situation. Such action plan may include, but is not limited to, _____. IBM will issue an RMA within _____ hours after IBM's concurrence that the affected Product do not meet the warranty. _____.

15.2 Notwithstanding Section 14.1, during the term of this Agreement and for _____ after Product End of Life (which is defined as the last Ship Date of a Product), if the parties agree that the Product's show evidence of a time-related failure, IBM will (i) analyze the data provided by WDC, and (ii) work with WDC to identify the cause of failure, and (iii) develop a mutually agreeable plan to address the situation. Such plan may include the same elements described in Section 15.1 above. The parties understand the words "time-related failures" are not the types of failures which are isolated in nature but are more frequent in occurrence. One example of a time-related failure is wire fatigue. One example that is not a time-related failure is "hard-error" failures which occur as a result of the integration of multiple components as well as from environmental factors.

15.3 If WDC determines and IBM agrees that (i) such time-related failures are solely attributable to a defect in the Product's material and workmanship or a failure to meet its Specifications, or (ii) due to

IBM's or its subcontractor's workmanship or materials and/or those component suppliers chosen and certified by IBM, IBM and WDC shall develop a mutually agreeable plan to address the situation. Such plan may include the same elements described in Section 15.1 above. If however, the parties agree that such failures are attributable to any components, materials or workmanship of suppliers certified by WDC, WDC will work directly with the applicable suppliers to develop an action plan to address the situation. WDC may, at its discretion, request that IBM participate in the resolution to such time-related failures and will negotiate with IBM terms and conditions under which IBM would agree to participate in such resolution.

15.4 IBM's warranty does not cover Products that are defective because of abuse, misuse, negligence or handling by WDC or a third party unrelated to IBM (by contract or otherwise), or use or storage in other than the specified physical environment.

16.0 DISCLAIMER OF WARRANTY

IBM DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR USE FOR A PARTICULAR PURPOSE.

17.0 Product Qualification and Acceptance

17.1 On a mutually agreed to date, IBM shall deliver to WDC, for WDC's approval, a Product Qualification and Acceptance (PQA) Procedure. Such PQA Procedure shall contain the procedures for ongoing inspection and testing, acceptance inspection and testing and facility surveys, as well as any physical performance and quality requirements in addition to those provided in the Specifications. In the event that the parties are unable to reach an agreement regarding the PQA Procedure within sixty (60) days from the Effective Date of this Agreement, the parties shall meet to negotiate in good faith how to proceed.

17.2 WDC reserves the right to review, with IBM's prior written agreement, IBM's manufacturing facilities and IBM's quality control procedures, both prior to first deliveries of Products and periodically thereafter, in order to assure compliance with the Specification(s), PQA Procedure, and other industry standard practices and procedures. IBM will implement and maintain quality control procedures mutually agreed upon by the parties as a result of such facility reviews.

18.0 Early Product Production

"Early Product" is defined as Product for which the parties have agreed on an initial specification which may, with IBM's and WDC's mutual agreement, change prior to the Product's General Availability. IBM agrees to produce Early Product to accommodate WDC's delivery schedule for Early Product subject to the following conditions:

18.1 The specification upon which Early Product production is based will be identified in an Exhibit to this Agreement. Purchase orders and delivery of Early Product will be as described in Section 5.0 (Forecasts) and 7.0 (Order and Order Changes).

18.2 WDC agrees to purchase Early Product produced by IBM using the specification in effect at the time of the Purchase Order, at the price established by Section 6.0 (Prices). Subject to the Product source inspection, WDC may reject Early Product which does not meet the applicable specification.

19.0 Quality

WDC and IBM acknowledge that quality and reliability is a prime consideration in total cost and customer satisfaction. Therefore, both parties agree to develop mutually agreed upon quality objectives for the IBM Components that are to be sold by IBM to WDC under this Agreement. Once these quality objectives have been defined and agreed upon by the parties, IBM and WDC will use reasonable efforts to achieve those objectives. Failure to achieve or help the other party to achieve such quality objectives shall not be considered a breach of, or subject either party to liability under, this Agreement.

20.0 Specification, Engineering and Other Changes

20.1 The Product form, fit or functional Specification may be amended or otherwise changed from time-to-time by written agreement of the parties. WDC agrees to purchase Products produced by IBM using the latest, fully qualified Specification in effect at the time of the Purchase Order, at the price established by Section 6.0 (Price).

20.2 It is IBM's goal to provide WDC with reasonable outlooks of upcoming Product changes. Therefore, IBM will provide WDC with (i) immediate notification for mandatory safety and reliability changes; (ii) _____ days notification for all other mandatory, or situations out of IBM's reasonable control, changes; and (iii) _____ days notification for all other, optional changes.

20.3 Some changes may require requalification by WDC's customers. In those cases, IBM and WDC will meet and establish a mutually agreeable schedule for "phase-over" for the new engineering level. For a mutually agreeable period of time, IBM will maintain a line of supply of the previously qualified Product so that WDC's customers can re-qualify the Product.

21.0 Product End of Life

21.1 IBM reserves the right to withdraw from marketing any Products. IBM will notify WDC in writing at least _____ prior to the withdrawal date of a Product. IBM will ship Products for purchase orders which IBM has accepted before the withdrawal date. Subject to Sections 5.0 (Forecasts) and 7.0 (Order and Order Changes), IBM will accept purchase orders for delivery of Products to be withdrawn for an additional _____ after the withdrawal date. These additional purchase orders must be submitted to IBM at least _____ prior to the withdrawal date and may not be cancelled or modified.

21.2 WDC will provide IBM with at least _____ notice of its intent to bring a [Product A]/[Product B] HDD to end of life. If WDC wishes Product continuance beyond IBM's planned withdrawal date, the parties agree to meet and discuss a joint Product End of Life plan.

21.3 At Product End of Life, WDC and IBM will meet to project and forecast the need for replacement spare parts and the parties will mutually agree to a Product End of Life plan for the provision of those parts to WDC.

22.0 Service Support

22.1 WDC and IBM will calculate the annualized failure rates of the Products and the spare part stocking levels for associated HGAs which will be needed by WDC for its HDD warranty period after Product End of Life. During the last Program Quarter of a Product, the parties will meet to determine the amount of spare parts which will be needed after Product End of Life.

22.2 For those failed Products which are defined in Section 15.2, IBM will bear the responsibility of repair of those failed Products.

22.3 For any other failed Products, WDC will be responsible for the repair of those failed Products. WDC will purchase the needed spare parts, as determined by the parties pursuant to Section 22.1 above, in the quarter following Product End of Life, at the last Program Quarter prices.

22.4 WDC will allow IBM to utilize WDC's service repair center (or its designated third party suppliers as approved by IBM). In the event that IBM chooses to use the WDC repair center for its own repair of Products under this Agreement, IBM and WDC will estimate the prices per failed Product configuration for the following quarter. IBM and WDC representatives will meet quarterly to review WDC actual service repair costs and will reconcile the estimated repair payments paid in the previous quarter to the actual repair costs incurred.

22.5 Within _____ after Product End of Life, WDC (or a third party supplier approved by IBM) will repair failed Product contained in returned IBM or WDC HDDs.

22.6 In the event that WDC purchases finished PCBAs, the parties will meet and negotiate a service repair strategy.

23.0 Termination

23.1 The parties may agree to mutually terminate this Agreement by written amendment.

23.2 A Party may terminate this Agreement for cause in the event of a material breach of this Agreement by the other party.

23.3 Termination of this Agreement under Section 23.0 shall become effective sixty (60) days after written notice of the termination, unless the breaching party cures the default prior to the effective date of the cancellation. Such termination shall not be delayed or postponed as the result of any election made by either party to invoke the dispute resolution process under this Agreement.

24.0 Patent Indemnity

If a third party claims that a Product provided to WDC infringes that party's patent, IBM shall defend WDC against that claim at IBM's expense and pay costs, damages, and attorney's fees a court finally awards, provided that WDC:

- (a) promptly notifies IBM in writing of the claim; and
- (b) allows IBM sole control of, and cooperates with IBM in, the defense and any related settlement negotiations.

In addition, if such a claim is made or appears likely to be made, WDC will permit IBM, at its discretion, either to enable WDC to continue to use the Products (by obtaining a license or otherwise), or to modify or replace them. If IBM determines that none of these alternatives is reasonably available, WDC shall return the Products to IBM at IBM's request for a credit for the price paid by WDC for such Products. The preceding paragraph and this paragraph represent IBM's entire obligation to WDC regarding any claim of patent infringement.

Notwithstanding any provisions in this section, IBM shall have no liability and shall not indemnify WDC for such claim if the claim is based on:

- (a) modification of the Products by WDC;
- (b) infringement caused by the combination of the Products with other parts and/or components not provided by IBM;
- (c) the use of the Products in other than their specified operating environment; or
- (d) infringement by a non-IBM component alone.

25.0 ADMINISTRATIVE PROVISIONS

25.1 Managing Coordinators

The Managing Coordinators for the parties are:

<p>For IBM:</p> <p>- - - - -</p> <p>5600 Cottle Road Dept. 8T7A / Bldg. 28-2 San Jose, California 95193 Fax: 1-408-256-2751</p>	<p>For WDC:</p> <p>- - - - -</p> <p>8105 Irvine Center Drive Irvine, California 92718 Fax: 949-932-7703</p>
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Each party may change its Managing Coordinator, or designate a temporary acting Managing Coordinator, at any time during the term of this Agreement by notifying the Managing Coordinator for the other party in writing at the above address. No formal amendment to this Agreement is necessary to make this change.

The Managing Coordinator is not authorized to amend, alter, or extend this Agreement in any way. The Managing Coordinator or his designated alternate is only authorized to:

- (a) submit and receive requests, proposals, and responses;

(b) schedule and coordinate visits by personnel of each party to facilities of the other party, or its Subsidiaries, in connection with activities under this Agreement; and

(c) monitor schedules and progress of this Agreement.

25.2 Notice

Except as otherwise provided for in this Agreement, any notice or communication to be made or given to a party under to this Agreement shall be sent to that party by facsimile or by registered airmail, postage prepaid. Registered or certified mail may also be used where delivery is in the same country as mailing. Notices and communications shall be sent to the receiving party's address listed below or to another address designated in writing by the receiving party. Notices or other communications shall be deemed to have been given on the date of receipt.

For the mailing of all notices and communications under this Agreement to IBM:

IBM Corporation
 Legal Department
 5600 Cottle Road
 Dept. 277A/Bldg. 12-2
 San Jose, California 95193
 Fax: 408-256-6718

For mailing to WDC for notices and communications:
 Western Digital Law Department
 Director, Contracts/Licensing
 8105 Irvine Center Drive
 Irvine, California 92618
 Fax: 949-932-5633

26.0 General Provisions

26.1 No Assignment or Subcontract

This Agreement shall be binding on and inure to the benefit of the parties to this Agreement, their Subsidiaries, and their respective successors and assigns.

Neither party may transfer, assign, delegate, license or sublicense this Agreement nor any of the rights, licenses or duties under this Agreement, including but not limited to any license rights obtained hereunder, without the prior written approval of the other party, except that: either party may (i) assign its rights to payments that will become due under the Agreement to another party, (ii) assign this Agreement to a Subsidiary with the prior written consent of the other party, which will not be unreasonably withheld or delayed, and (iii) delegate its duties to a Subsidiary that it reasonably believes will be capable of performing such party's duties under this Agreement; Any assignment or delegation pursuant to this paragraph shall not relieve either party of its obligation under this Agreement. Any assignment or delegation that is inconsistent with this Section is void and shall have no effect.

Neither party may subcontract any work to be performed under this Agreement without the prior written approval of the other party which approval will not be unreasonable withheld or delayed. However, if a party does subcontract with the consent of the other party, the subcontracting party shall be solely responsible for the performance of the subcontractor. Subcontracting work shall not relieve either party of its obligations under this Agreement.

26.2 Publicity/Trademarks

Neither party may disclose the terms of this Agreement in any publication or marketing materials without the prior written consent of the other party. The parties agree that any publicity regarding the subject matter of this Agreement will be duly coordinated by and between the parties. Each party hereto agrees not to disclose the terms and conditions of this Agreement other than to its Subsidiaries, independent accountants or legal counsel except as may be required by law or governmental regulation, without the express written consent of the other party.

Nothing contained in this Agreement shall be construed as transferring any right to use in advertising, publicity, or other promotional activities any name, trade name, trademark, or other designation of either party to this Agreement (including any contraction, abbreviation, or simulation of any of the foregoing).

26.3 Non-Exclusive Agreement

Nothing in this Agreement prevents either party from entering into similar agreements or discussions with others, or developing, making, procuring, marketing and/or maintaining products, now or in the future, which compete or incorporate features that may be competitive with the Products included herein.

26.4 Independent Relationship of the Parties

Each party shall be responsible for its own employees. No employee of either party shall be deemed an employee of the other party. Matters governing the terms and conditions of the employment of any employee, such as supervision, work schedules, wage rates, tax withholdings, and benefits, are exclusively the responsibility of the employer of that employee.

Each party shall obtain appropriate agreements with its employees or others, including subcontractors, whose services it may require, sufficient to enable such party to comply with all the provisions of this Agreement.

Except as otherwise provided in this Agreement, each party shall bear its own expenses incurred in connection with this Agreement, including those expenses incurred prior to the Effective Date.

26.5 Representations and Warranties

Other than as expressly provided in this Agreement, neither party makes any other representations or warranties nor assumes any liabilities in connection with this Agreement.

26.6 Compliance with Laws and Regulations

26.6.1 Each party hereto shall comply with all applicable United States and foreign laws, regulations and rules, including import and export laws, of all governmental authorities having jurisdiction and will obtain all necessary permits, licenses and consent of governmental authorities necessary for the performance of this Agreement.

26.6.2 Each party understands that Products and the parties' technical information/documentation related thereto are restricted from export by the United States Government. Each party agrees that employees or agents will not export or re-export (directly or indirectly) any such technical documentation nor Products to any country specified in such regulations as a prohibited destination.

26.7 Governing Law, Venue and Jury Trial Waiver

This Agreement and any agreement incorporated into it shall be construed in accordance with the substantive laws of the State of New York, and by the copyright and patent laws of the United States of America. Venue for any action arising out of this Agreement shall be solely in the U.S. District Court of the Northern District of California. Both parties waive their right to a jury trial in any action arising out of or related to this Agreement.

26.8 Limitation of Liability and Exclusion of Consequential Damages

26.8.1 For all claims related to the performance or nonperformance of Products, WDC's only remedies are (i) as provided in Section 14.0 (Product Inspection, Acceptance and Warranty), or (ii) for IBM to repair or replace the Products, or (iii) for IBM to grant WDC a credit for the affected Products at the current or most recent price.

26.8.2 For all claims not covered by Section 26.8.1, IBM's liability for actual damages for any cause whatsoever shall be limited to the greater of _____ dollars (\$_____) or _____. This limitation will apply to all claims regardless of the form of action, including without limitation contract, negligence and other torts. This limitation will not apply to (i) the payments referred to in Section 24.0 (Patents Indemnity), or (ii) claims by WDC for bodily injury or damage to real or tangible personal property caused by the Products and for which IBM is legally liable.

26.8.3 Except for any violations or any breaches of this Agreement pertaining to IBM's intellectual property rights, neither party shall be liable for any consequential, incidental, special or punitive damages arising out of or related to this Agreement, including lost revenue, profits, or savings, whether the claim is for breach of contract, warranty or tort (including negligence), failure of a remedy to accomplish its purpose, or otherwise, even if notified in advance of the possibility of such damages. Neither party shall be liable for any third party claims against the other party for any losses or damages, including without limitation, loss of or damage to records or data.

26.9 Force Majeure

A party to this Agreement shall be excused from the fulfillment of any obligation under this Agreement for so long as such fulfillment shall be hindered or prevented by any circumstances of force majeure such as, but not limited to, acts of God, war, riot, strike, lockout, fire, flood, other natural catastrophe, shortage of materials or transportation, national or local government regulations, or any other

circumstances outside of its control. However, the affected party must promptly notify the other party of the condition that delays or prevents its performance. The affected party must also take reasonable steps to perform despite the condition, or to correct or repair the condition that delays or prevents its performance.

26.10 Agreement Interpretation

The title and headings in this Agreement are for convenient reference and are not intended to change or supplement the meaning of the terms of this Agreement. References to Sections of this Agreement followed by a single zero (0) shall include the entire section of the Agreement including all subparts. References to a number of days, weeks, months, or years, shall mean calendar days, weeks, months, or years, unless otherwise stated. This Agreement shall be construed as having been jointly drafted by both parties after meaningful negotiation.

26.11 Severability

If any provision of this Agreement is found by any governmental authority or competent judicial authority to be invalid, illegal, or unenforceable in any respect, and such invalidity, illegality or unenforceability affects the economic benefits of this Agreement, the party affected by such action may terminate this Agreement. If such action does not affect the economic benefits, the remainder of such provisions shall survive to the extent they are not so declared, and the validity, legality and enforceability of the other provisions hereof shall not in any way be affected or impaired thereby, unless such action would materially affect any of the rights or obligations of either party, in which case either party may terminate the Agreement.

26.12 Survival

In addition to Sections of this Agreement where survival rights are specified, the rights and obligations of Sections 7.0 (Order and Order Changes), 9.0 (Sales Inside and Outside the United States), 11.0 (Payments and Invoices), 12.0 (Interest), 13.0 (Audit), 14.0 (Product Inspection and Warranty), 15.0 (Material and Workmanship), 16.0 (Warranty Disclaimer), 22.0 (Service Support), 24.0 (Patent Indemnity), 26.2 (Publicity/Trademarks), 26.4 (Independent Relationship of the Parties), 26.5 (Representations and Warranties), 26.6 (Compliance with Laws and Regulations), 26.7 (Governing Law, Venue and Jury Trial Waiver), 26.8 (Limitation of Liability and Exclusion of Consequential Damages), 26.11 (Severability), 26.12 (Survival), 26.13 (Failure to Act), 26.16 (Sole Agreement and Amendments) shall survive and continue after any expiration or termination of this agreement and shall bind the parties and their legal representatives, successors and assigns.

26.13 Failure to Act

Any delay or failure of a party to this Agreement to exercise any right, power, remedy, or privilege hereunder, or failure to strictly enforce any breach, violation, default, failure to perform, provision or condition shall not impair any such right, power, remedy, or privilege, nor shall it constitute a waiver thereof or acquiescence thereto unless explicit written notice is provided. Any waiver, permit, consent, or approval of any kind regarding any breach, violation, default, failure to perform, provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. No partial waiver of any such right, power, privilege, breach, violation, default,

failure to perform, provision or condition on any one occasion shall preclude any other or further exercise thereof or constitute a waiver thereof or acquiescence thereto on any subsequent occasion unless clear and express notice thereof in writing is provided.

26.14 Prohibited Discussions

The parties affirm that their respective marketing policies or activities, or pricing information with respect to Products or HDDs, relative to the subject matter of this Agreement shall not be discussed or exchanged between them.

26.15 Dispute Resolution

The parties will attempt in good faith to promptly resolve any controversy or claim arising out of or relating to this Agreement by negotiations between the parties. If a controversy or claim should arise, the administrators of this Agreement or their respective successors, or their superiors, will meet in person or phone, as they decide, at least once and will attempt to resolve the matter. Either Managing Coordinator of this Agreement may require the other to meet within seven (7) days at a mutually agreed upon time and location.

If a matter has not been resolved within ten (10) days of their first meeting, or a request for such meeting if no meeting occurs, the Managing Coordinators of this Agreement will refer the matter to Senior Executives of the parties, who shall have authority to settle the dispute. The Managing Coordinators of this Agreement may prepare and exchange memoranda stating the issue(s) in dispute and their positions, while summarizing the negotiations which have taken place between the parties and attaching relevant documents, if appropriate. The Senior Executives of the parties will either meet in person or discuss the matter by telephone at a mutually agreed upon time and/or location.

If a dispute that does not involve or relate to WDC's use or disclosure of IBM Technology or IBM Technical Information has not been resolved within fifteen (15) days of the first meeting or discussion by the Senior Executives or fifteen (15) days from the first request for such a meeting or discussion if no meeting or discussion has occurred, then upon the request of either party within three (3) days after such period, the parties will attempt to resolve such dispute by submitting it to expedited mediation in accordance with the following paragraph before the commencement of litigation.

If the parties cannot agree on a neutral mediator within three (3) days from receipt of a request to mediate, either party can request the American Arbitration Association appoint a neutral mediator with experience in the computer industry. Each party agrees to cooperate fully with the mediator and attempt to resolve the dispute. The proceedings of the mediator shall be privileged as settlement discussions and shall not be admissible in any subsequent litigation, and the proceedings and any suggestions or recommendations by the mediator shall be non-binding. The mediator shall make no records during the mediation and no report shall be issued. If the parties cannot promptly resolve their differences to their mutual satisfaction within fourteen (14) days of the request for mediation or after two (2) mediation sessions, whichever occurs first, either party shall be free to pursue any and all other remedies available to such party, including but not limited to, litigation. Costs of the mediator will be born equally by the parties.

Under no circumstances shall either party attempt to use the process set forth above for dispute resolution if the intended purpose of either party is primarily to delay an action at law or in equity against the other party. Notwithstanding anything to the contrary, nothing in the process set forth above shall prevent: (i) either party from issuing notices or other required communications prior to or during the dispute resolution process, (ii) IBM from seeking immediate injunctive relief for a dispute that involves or relates to WDC's use or disclosure of IBM Technology or IBM Technical Information, or (iii) either party from terminating this Agreement. If IBM seeks immediate injunctive relief, the parties may submit the matter involving IBM's request for injunctive relief to expedited mediation in accordance with the immediately preceding paragraph.

26.16 Sole Agreement and Amendments

The terms of this Agreement, and any agreements incorporated herein or referenced or any agreements to which this agreement is an attendant, are the complete and exclusive statement of the agreement between the parties on this subject matter. They supersede any prior or contemporaneous oral or written statements, agreements, or representations relating to the subject matter of this Agreement.

The terms and conditions of the main body of this Agreement shall control and prevail over any inconsistent or contradictory term or condition in any Exhibits to this Agreement or in any purchase order, shipping document, invoice or similar document passing between the parties pursuant to this Agreement; provided, however, that if an Exhibit or other agreement signed by WDC and IBM explicitly indicates that one or more terms thereof supersede identified provisions of this Agreement, such terms in such Exhibit or other agreement shall prevail.

The parties understand that there are no other oral or written collateral promises, representations, agreements, or understandings other than those expressly stated in this Agreement. Each party warrants that there were no inducements, express or implied, relied upon as a condition of entry into this Agreement.

This Agreement may not be changed or supplemented except by a separate written amendment signed by an authorized representative of each party. No conflicting or additional terms in any purchasing acknowledgment, or other form not specifically incorporated by reference into this Agreement shall be considered part of this Agreement. Any such terms are void and shall be treated as having been objected to by the parties.

27.0 Execution

More than one counterpart of this Agreement may be executed by the parties, and each fully executed counterpart shall be deemed an original. WDC and IBM indicate their agreement to the terms of this Agreement by their authorized representatives signing below.

INTERNATIONAL BUSINESS MACHINES
CORPORATION

By: /s/ JAMES R. BOOTH

Name: James R. Booth
Title: Vice President, Worldwide
Materials
Date: June 7, 1998

WESTERN DIGITAL CORPORATION

By: /s/ A. KEITH PLANT

Name: A. Keith Plant
Title: Vice President, Business
Development
Date: June 7, 1998

=====
CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
=====

EXHIBIT 1

Pricing and Volumes

1.0 PRICE:

The prices outlined in this Exhibit are for the purchase of Products:

[Deleted]

1.1.1 Initial Payment

The Program Quarter prices for Phase 1 HGAs for both [Product A] and [Product B] are as follows:

[Deleted]

1.1.2 Subsequent Payments

1.1.2.1 WDC shall also make a subsequent payment to IBM ("Subsequent Payments"), as set forth below, based on all net revenues, as determined in accordance with generally accepted accounting principles, that are obtained by WDC from the sale and lease or other distribution of WDC's 3.5" form factor, desktop HDD products which are developed, manufactured or qualified that contain IBM HGAs under this Agreement.

1.1.2.2 The amount of the Subsequent Payment shall be calculated as the greater of: (i) _____ percent (____%) in the aggregate, or (ii) the percentages set forth in the table below; of all net revenues, as determined in accordance with generally accepted accounting principles, that are obtained by WDC from the sale and lease or other distribution of WDC's 3.5" form factor, desktop HDD products, which are developed, manufactured or qualified with IBM's HGAs under this Agreement. Such Subsequent Payment shall be paid by WDC to IBM on a monthly basis in the manner and pursuant to the schedule set forth in Section 1.1.2.3 below:

[Table Deleted]

1.1.2.3 WDC shall pay to IBM the Subsequent Payments set forth in Section 1.1.2.2 in accordance with the following payment schedule:

[Deleted]

1.2. Program Quarter prices for non-HGA materials and agreed upon mechanical components: PQ prices - TBD

1.3. Program Quarter prices for PCBAs with 3-piece Chip Set (_____), excluding flash for both [Product A] and [Product B] are as follows:

[Table Deleted]

1.4. Program Quarter prices for Phase 1 for 3-piece Chip Set (_____), assuming PCBA is not sold by IBM with the 3-piece Chip Set to WDC for both [Product A] and [Product B] are as set forth in the IMD Agreement.

1.5. Program Quarter average prices for Arm Electronics (Phase 1) Price for both [Product A] and [Product B] are as follows: [Deleted]

1.6. Prices and quantities for prototype [Product A] and [Product B] Assembly Kits are as follows:

[Deleted]

2.0 Payments

All payments that are to be made by WDC to IBM under this Agreement including Subsequent Payments on any sales and leases of WDC's 3.5" form factor, desktop Products, shall be nonrefundable. All payments shall be made in accordance with the payment terms of this Agreement and as further described in Section 11.0 (Payments and Invoices) of the Agreement.

3.0 Volumes:

3.1 [Deleted]

3.2 WDC projected HGA Volume orders (in millions) are as follows:

[Deleted]

=====
CONFIDENTIAL.
CERTAIN INFORMATION HAS BEEN REDACTED.
CONFIDENTIAL TREATMENT REQUESTED.
=====

EXHIBIT 2

[Deleted]

WESTERN DIGITAL CORPORATION
SUBSIDIARIES OF THE COMPANY

NAME	JURISDICTION
----	-----
Western Digital Ireland, Ltd.....	Cayman Islands
Western Digital (Malaysia) SDN BHD.....	Malaysia
Western Digital (Deutschland) GmbH.....	Federal Republic of Germany
Western Digital (France) S.a.r.l.....	France
Western Digital Japan Ltd.....	Japan
Western Digital (U.K.) Limited.....	United Kingdom
Western Digital Canada Corporation.....	Canada
Western Digital (Singapore) Pte Ltd.....	Singapore
Western Digital Taiwan Co., Ltd.....	Taiwan, Republic of China
Western Digital Hong Kong Limited.....	Hong Kong
Western Digital Netherlands B.V.....	The Netherlands
Western Digital (S.E. Asia) Pte Ltd.....	Singapore
Western Digital (I.S.) Limited.....	Ireland
Western Digital (Tuas-Singapore) Pte Ltd.....	Singapore
Pacifica Insurance Corporation.....	Hawaii

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Western Digital Corporation:

We consent to the incorporation by reference in the Registration Statements (Nos. 2-76179, 2-97365, 33-57953, 33-9853, 33-15771, 33-60166, 33-60168, 33-51725, 333-20359, 333-31487, 333-41423 and 333-42991) on Form S-8 of Western Digital Corporation and in Registration Statement No. 333-52463 on Form S-3 of Western Digital Corporation of our report dated July 27, 1998, relating to the consolidated balance sheets of Western Digital Corporation as of June 28, 1997 and June 27, 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended June 27, 1998, and the related schedule, which report appears in the June 27, 1998 Annual Report on Form 10-K of Western Digital Corporation.

KPMG PEAT MARWICK LLP

Orange County, California
September 1, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED JUNE 27, 1998.

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YEAR	
	JUN-27-1998
	JUN-29-1997
	JUN-27-1998
	459,830
	0
	384,939
	15,926
	186,516
	1,052,122
	601,253
	254,266
	1,442,688
588,579	
	519,188
0	
	0
	883
	316,875
1,442,688	
	3,541,525
	3,541,525
	3,441,475
	3,441,475
	395,875
	4,674
	3,817
	(292,008)
	(1,791)
(290,217)	
	0
	0
	0
	(290,217)
	(3.32)
	(3.32)