

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 29, 2017

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®
WESTERN DIGITAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

**5601 Great Oaks Parkway
San Jose, California**

(Address of principal executive offices)

33-0956711

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

95119

(Zip Code)

Registrant's telephone number, including area code: (408) 717-6000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of the close of business on January 30, 2018, 297,560,299 shares of common stock, par value \$0.01 per share, were outstanding.

WESTERN DIGITAL CORPORATION

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Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters, and references to financial information are on a consolidated basis. As used herein, the terms “we,” “us,” “our,” the “Company,” “WDC” and “Western Digital” refer to Western Digital Corporation and its subsidiaries, unless we state, or the context indicates, otherwise.

WDC, a Delaware corporation, is the parent company of our data storage business. Our principal executive offices are located at 5601 Great Oaks Parkway, San Jose, California 95119. Our telephone number is (408) 717-6000, and our website is www.wdc.com. The information on our website is not incorporated in this Quarterly Report on Form 10-Q.

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FORWARD-LOOKING STATEMENTS

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

- *expectations concerning the integration of, and anticipated benefits from, our acquisition of SanDisk Corporation;*
- *expectations regarding the integration of our HGST and WD subsidiaries following the decision by the Ministry of Commerce of the People’s Republic of China in October 2015;*
- *expectations regarding our Flash Ventures joint venture with Toshiba Memory Corporation;*
- *our quarterly cash dividend policy;*
- *expectations regarding our product development and technology plans;*
- *expectations regarding the outcome of legal proceedings in which we are involved;*
- *expectations regarding the impact of the Tax Cuts and Jobs Act enacted on December 22, 2017 on the Company;*
- *expectations regarding the repatriation of funds from our foreign operations;*
- *our beliefs regarding tax benefits and the timing of future payments, if any, relating to the unrecognized tax benefits, and the adequacy of our tax provisions;*
- *expectations regarding capital investments and sources of funding for those investments;*
- *expectations regarding the outcome and anticipated benefits of the announced Refinancing Transactions (as defined below); and*
- *our beliefs regarding the sufficiency of our available liquidity to meet our working capital, debt, dividend and capital expenditure needs.*

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par value)
(Unaudited)

	December 29, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,272	\$ 6,354
Short-term investments	23	24
Accounts receivable, net	2,052	1,948
Inventories	2,281	2,341
Other current assets	485	389
Total current assets	11,113	11,056
Property, plant and equipment, net	3,054	3,033
Notes receivable and investments in Flash Ventures	1,845	1,340
Goodwill	10,076	10,014
Other intangible assets, net	3,230	3,823
Other non-current assets	522	594
Total assets	\$ 29,840	\$ 29,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,921	\$ 2,144
Accounts payable to related parties	250	206
Accrued expenses	1,191	1,069
Accrued compensation	523	506
Accrued warranty	194	186
Current portion of long-term debt	274	233
Total current liabilities	4,353	4,344
Long-term debt	11,777	12,918
Other liabilities	2,438	1,180
Total liabilities	18,568	18,442
Commitments and contingencies (Notes 6, 8, 10 and 13)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized — 5 shares; issued and outstanding — none	—	—
Common stock, \$0.01 par value; authorized — 450 shares; issued — 312 shares; outstanding — 297 shares and 294 shares, respectively	3	3
Additional paid-in capital	4,410	4,506
Accumulated other comprehensive loss	(46)	(58)
Retained earnings	8,250	8,633
Treasury stock — common shares at cost; 15 shares and 18 shares, respectively	(1,345)	(1,666)
Total shareholders' equity	11,272	11,418
Total liabilities and shareholders' equity	\$ 29,840	\$ 29,860

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
Revenue, net	\$ 5,336	\$ 4,888	\$ 10,517	\$ 9,602
Cost of revenue	3,323	3,355	6,591	6,734
Gross profit	2,013	1,533	3,926	2,868
Operating expenses:				
Research and development	629	585	1,221	1,224
Selling, general and administrative	381	358	745	754
Employee termination, asset impairment, and other charges	48	45	100	113
Total operating expenses	1,058	988	2,066	2,091
Operating income	955	545	1,860	777
Interest and other income (expense):				
Interest income	14	5	30	10
Interest expense	(197)	(205)	(402)	(441)
Other income (expense), net	2	(24)	(4)	(296)
Total interest and other expense, net	(181)	(224)	(376)	(727)
Income before taxes	774	321	1,484	50
Income tax expense	1,597	86	1,626	181
Net income (loss)	\$ (823)	\$ 235	\$ (142)	\$ (131)
Income (loss) per common share				
Basic	\$ (2.78)	\$ 0.82	\$ (0.48)	\$ (0.46)
Diluted	\$ (2.78)	\$ 0.80	\$ (0.48)	\$ (0.46)
Weighted average shares outstanding:				
Basic	296	286	295	285
Diluted	296	294	295	285
Cash dividends declared per share	\$ 0.50	\$ 0.50	\$ 1.00	\$ 1.00

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in millions)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
Net income (loss)	\$ (823)	\$ 235	\$ (142)	\$ (131)
Other comprehensive income (loss), before tax:				
Actuarial pension gain	—	1	—	6
Foreign currency translation adjustment	6	(186)	2	(169)
Net unrealized gain (loss) on derivative contracts	10	(136)	14	(140)
Net unrealized loss on available-for-sale securities	—	—	(1)	—
Total other comprehensive income (loss), before tax	16	(321)	15	(303)
Income tax benefit (expense) related to items of other comprehensive income (loss), before tax	(3)	9	(3)	3
Other comprehensive income (loss), net of tax	13	(312)	12	(300)
Total comprehensive loss	\$ (810)	\$ (77)	\$ (130)	\$ (431)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

-WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Six Months Ended	
	December 29, 2017	December 30, 2016
Cash flows from operating activities		
Net loss	\$ (142)	\$ (131)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	1,068	1,022
Stock-based compensation	196	201
Deferred income taxes	(129)	117
Loss on disposal of assets	12	10
Write-off of issuance costs and amortization of debt discounts	23	258
Loss on convertible debt and related instruments	—	5
Non-cash portion of employee termination, asset impairment and other charges	—	13
Other non-cash operating activities, net	16	42
Changes in:		
Accounts receivable, net	(99)	(540)
Inventories	65	52
Accounts payable	(276)	180
Accounts payable to related parties	44	6
Accrued expenses	95	59
Accrued compensation	17	194
Other assets and liabilities, net	1,425	12
Net cash provided by operations	2,315	1,500
Cash flows from investing activities		
Purchases of property, plant and equipment	(416)	(330)
Proceeds from the sale of property, plant and equipment	10	1
Acquisitions, net of cash acquired	(99)	—
Purchases of investments	(57)	(239)
Proceeds from sale of investments	29	55
Proceeds from maturities of investments	16	279
Investments in Flash Ventures	—	(20)
Notes receivable issuances to Flash Ventures	(621)	(309)
Notes receivable proceeds from Flash Ventures	112	259
Strategic investments and other, net	19	(12)
Net cash used in investing activities	(1,007)	(316)
Cash flows from financing activities		
Issuance of stock under employee stock plans	99	90
Taxes paid on vested stock awards under employee stock plans	(67)	(40)
Excess tax benefits from employee stock plans	—	56
Proceeds from acquired call option	—	61
Dividends paid to shareholders	(295)	(284)
Settlement of debt hedge contracts	28	—
Repayment of debt	(4,114)	(8,254)
Proceeds from debt	2,963	3,992
Debt issuance costs	(5)	(7)
Net cash used in financing activities	(1,391)	(4,386)
Effect of exchange rate changes on cash	1	(9)
Net decrease in cash and cash equivalents	(82)	(3,211)
Cash and cash equivalents, beginning of year	6,354	8,151
Cash and cash equivalents, end of period	\$ 6,272	\$ 4,940
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 140	\$ 43
Cash paid for interest	\$ 308	\$ 299
Supplemental disclosure of non-cash investing and financing activities:		
Accrual of cash dividend declared	\$ 149	\$ 144

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

Note 1. Organization and Basis of Presentation

Western Digital Corporation (“Western Digital” or “the Company”) is a leading developer, manufacturer and provider of data storage devices and solutions that address the evolving needs of the information technology (“IT”) industry and the infrastructure that enables the proliferation of data in virtually every industry. The Company’s broad portfolio of technology and products address the following key markets: Client Devices; Data Center Devices and Solutions; and Client Solutions. The Company also generates license and royalty revenue related to its intellectual property (“IP”), which is included in each of these three categories.

The accounting policies followed by the Company are set forth in Part II, Item 8, Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017. In the opinion of management, all adjustments necessary to fairly state the Condensed Consolidated Financial Statements have been made. All such adjustments are of a normal, recurring nature. Certain information and footnote disclosures normally included in the Consolidated Financial Statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

Fiscal Year

The Company’s fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Fiscal years 2018, which ends on June 29, 2018, and 2017, which ended on June 30, 2017, are both comprised of 52 weeks, with all quarters presented consisting of 13 weeks.

Use of Estimates

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with U.S. GAAP. These estimates and assumptions have been applied using methodologies that are consistent throughout the periods presented. However, actual results could differ materially from these estimates.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 2. Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, “Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides amendments that address eight specific cash flow classification issues for which there exists diversity in practice: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The Company adopted ASU 2016-15 in the second quarter of 2018 on a modified retrospective basis as required by the standard. The Company’s adoption of ASU 2016-15 did not have a material effect on the Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for stock-based payment transactions and states that, among other things, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement and an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. This adoption resulted in a one-time net increase to beginning retained earnings of \$70 million, consisting of a \$58 million cumulative adjustment for the previously unrecognized windfall tax benefits related to previous vesting and exercises of stock-based awards, and a \$19 million cumulative adjustment related to the change in accounting policy for estimated forfeitures and share cancellations, partially offset by a decrease of \$7 million for the related tax impacts of change in forfeiture policy. In addition, under the new standard, the Company will prospectively reflect the tax deficiencies and benefits as an operating activity, rather than as a financing activity under the previous standard, in the Company’s Consolidated Statements of Cash Flows. For the three and six months ended December 29, 2017, the Company recognized excess tax benefits of \$5 million and \$27 million, respectively, as a component of its income tax expense.

In March 2016, the FASB issued ASU No. 2016-07, “Investments- Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting” (“ASU 2016-07”). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The Company adopted this standard in the second quarter of 2018. The Company’s adoption of ASU 2016-07 did not have a material impact on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330) - Simplifying the Measurement of Inventory” (“ASU 2015-11”), which dictates that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this standard in the first quarter of 2018. The Company’s adoption of ASU 2015-11 did not have a material impact on its Consolidated Financial Statements.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 3. Supplemental Financial Statement Data
Inventories

	December 29, 2017	June 30, 2017
<i>(in millions)</i>		
Inventories:		
Raw materials and component parts	\$ 634	\$ 646
Work-in-process	667	632
Finished goods	980	1,063
Total inventories	\$ 2,281	\$ 2,341

Property, plant and equipment, net

	December 29, 2017	June 30, 2017
<i>(in millions)</i>		
Property, plant, and equipment:		
Land and buildings	\$ 1,913	\$ 1,855
Machinery and equipment	7,011	6,815
Computer equipment and software	433	404
Furniture and fixtures	50	49
Leasehold improvements	253	259
Construction-in-process	175	144
Property, plant and equipment, gross	9,835	9,526
Accumulated depreciation	(6,781)	(6,493)
Property, plant, and equipment, net	\$ 3,054	\$ 3,033

Goodwill

	Carrying Amount
<i>(in millions)</i>	
Balance at June 30, 2017	\$ 10,014
Goodwill recorded in connection with acquisitions	61
Foreign currency translation adjustment	1
Balance at December 29, 2017	\$ 10,076

On September 15, 2017, the Company acquired substantially all the assets of Tegile Systems, Inc., a provider of flash and persistent-memory storage solutions for enterprise data center applications. On August 25, 2017, the Company acquired substantially all the assets of Upthere, Inc., a cloud services company. These acquisitions are primarily intended to help meet the evolving needs of customers, while driving long-term growth for the Company's existing data center and client solution products over the long term.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The aggregate purchase price of acquisitions during the six months ended December 29, 2017 was \$99 million in cash, with net assets acquired primarily consisting of developed technology and other intangibles assets, of which \$61 million was allocated to goodwill. Goodwill is primarily attributable to the benefits the Company expects to derive from diversifying product offerings to its Data Center Devices and Solutions and Client Solutions end markets as well as the acquired workforce. Goodwill is expected to be deductible for tax purposes because the acquisitions were structured as asset acquisitions but accounted for as business combinations. Concurrent with these acquisitions, the Company received \$36 million in proceeds on previously outstanding notes receivable due from these acquired entities.

During the six months ended December 29, 2017, the Company incurred \$6 million of transaction expenses related to these acquisitions, which are primarily included within Selling, General and Administrative expenses in the Condensed Consolidated Statements of Operations. Revenues and earnings related to these acquisitions was not material.

Intangible assets

	December 29, 2017	June 30, 2017
	(in millions)	
Finite-lived intangible assets	\$ 5,814	\$ 5,160
In-process research and development	80	696
Accumulated amortization	(2,664)	(2,033)
Intangible assets, net	<u>\$ 3,230</u>	<u>\$ 3,823</u>

As part of prior acquisitions, the Company recorded at the time of the acquisition acquired in-process research and development (“IPR&D”) for projects in progress that had not yet reached technological feasibility. IPR&D is initially accounted for as an indefinite-lived intangible asset. Once a project reaches technological feasibility, the Company reclassifies the balance to existing technology and begins to amortize the intangible asset over its estimated useful life. During the three months ended December 29, 2017, two IPR&D projects reached technological feasibility totaling \$616 million and commenced amortization over an estimated useful life of 4 years.

Product warranty liability

Changes in the warranty accrual were as follows:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	(in millions)			
Warranty accrual, beginning of period	\$ 302	\$ 277	\$ 311	\$ 279
Charges to operations	46	44	90	91
Utilization	(43)	(35)	(81)	(80)
Changes in estimate related to pre-existing warranties	(1)	27	(16)	23
Warranty accrual, end of period	<u>\$ 304</u>	<u>\$ 313</u>	<u>\$ 304</u>	<u>\$ 313</u>

The long-term portion of the warranty accrual classified in Other liabilities was \$110 million and \$125 million as of December 29, 2017 and June 30, 2017, respectively.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Other liabilities

	December 29, 2017	June 30, 2017
	(in millions)	
Non-current income taxes payable	\$ 1,425	\$ —
Other non-current liabilities	1,013	1,180
Total other non-current liabilities	\$ 2,438	\$ 1,180

Accumulated other comprehensive income (loss)

Other comprehensive loss (“OCI”), net of tax refers to expenses, gains and losses that are recorded as an element of shareholders’ equity but are excluded from net income. The following table illustrates the changes in the balances of each component of Accumulated other comprehensive income (loss) (“AOCI”):

	Actuarial Pension Gains (Losses)	Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Available for Sale Securities	Unrealized Gains (Losses) on Derivative Contracts	Total Accumulated Comprehensive Income (Loss)
	(in millions)				
Balance at June 30, 2017	\$ (18)	\$ (39)	\$ 2	\$ (3)	\$ (58)
Other comprehensive income (loss) before reclassifications	—	2	(1)	15	16
Amounts reclassified from accumulated other comprehensive income	—	—	—	(1)	(1)
Income tax expense related to items of other comprehensive income	—	—	—	(3)	(3)
Net current-period other comprehensive income	—	2	(1)	11	12
Balance at December 29, 2017	<u>\$ (18)</u>	<u>\$ (37)</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ (46)</u>

During the three and six months ended December 29, 2017, there were no material reclassifications out of AOCI. The following table illustrates the significant amounts of each component reclassified out of AOCI to the Condensed Consolidated Statements of Operations:

AOCI Component	Three Months Ended		Six Months Ended		Statement of Operations Line Item
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016	
	(in millions)				
Unrealized holding gain (loss) on designated hedging activities:					
Foreign exchange contracts	\$ 4	\$ 16	\$ 1	\$ 40	Cost of revenue
Foreign exchange contracts	—	—	—	2	Research and development
Unrealized holding gain on designated hedging activities	4	16	1	42	
Total reclassifications for the period	<u>\$ 4</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 42</u>	

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 4. Fair Value Measurements and Investments

The Company's total cash, cash equivalents and marketable securities was as follows:

	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Cash and cash equivalents	\$ 6,272	\$ 6,354
Short-term marketable securities	23	24
Long-term marketable securities (included within other non-current assets)	94	94
Total cash, cash equivalents and marketable securities	<u>\$ 6,389</u>	<u>\$ 6,472</u>

Financial Instruments Carried at Fair Value

Financial assets and liabilities that are remeasured and reported at fair value at each reporting period are classified and disclosed in one of the following three levels:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Inputs that are unobservable for the asset or liability and that are significant to the fair value of the assets or liabilities.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

The following tables present information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of December 29, 2017 and June 30, 2017, and indicate the fair value hierarchy of the valuation techniques utilized to determine such values:

	December 29, 2017			
	Level 1	Level 2	Level 3	Total
	<i>(in millions)</i>			
Assets:				
Cash equivalents:				
Money market funds	\$ 3,016	\$ —	\$ —	\$ 3,016
Certificates of deposit	—	7	—	7
Total cash equivalents	3,016	7	—	3,023
Short-term investments:				
Corporate notes and bonds	—	15	—	15
Asset-backed securities	—	4	—	4
Municipal notes and bonds	—	1	—	1
Equity securities	3	—	—	3
Total short-term investments	3	20	—	23
Long-term investments:				
U.S. Treasury securities	5	—	—	5
U.S. Government agency securities	—	5	—	5
International government securities	—	1	—	1
Corporate notes and bonds	—	66	—	66
Asset-backed securities	—	6	—	6
Municipal notes and bonds	—	11	—	11
Total long-term investments	5	89	—	94
Foreign exchange contracts	—	11	—	11
Interest rate swap contract	—	8	—	8
Total assets at fair value	\$ 3,024	\$ 135	\$ —	\$ 3,159
Liabilities:				
Foreign exchange contracts	\$ —	\$ 7	\$ —	\$ 7
Total liabilities at fair value	\$ —	\$ 7	\$ —	\$ 7

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
	<i>(in millions)</i>			
Assets:				
Cash equivalents:				
Money market funds	\$ 2,836	\$ —	\$ —	\$ 2,836
Certificates of deposit	—	10	—	10
Total cash equivalents	2,836	10	—	2,846
Short-term investments:				
Corporate notes and bonds	—	11	—	11
Asset-backed securities	—	7	—	7
Municipal notes and bonds	—	2	—	2
Equity securities	4	—	—	4
Total short-term investments	4	20	—	24
Long-term investments:				
U.S. Treasury securities	5	—	—	5
U.S. Government agency securities	—	5	—	5
International government securities	—	1	—	1
Corporate notes and bonds	—	67	—	67
Asset-backed securities	—	7	—	7
Municipal notes and bonds	—	9	—	9
Total long-term investments	5	89	—	94
Foreign exchange contracts	—	16	—	16
Total assets at fair value	\$ 2,845	\$ 135	\$ —	\$ 2,980
Liabilities:				
Foreign exchange contracts	\$ —	\$ 8	\$ —	\$ 8
Interest rate swap contract	—	1	—	1
Exchange options	—	—	1	1
Total liabilities at fair value	\$ —	\$ 9	\$ 1	\$ 10

During the three and six months ended December 29, 2017, the Company had no transfers of financial assets and liabilities between Level 1 and Level 2.

Available-for-Sale Securities

The cost basis of the Company's investments classified as available-for-sale securities, individually and in the aggregate, approximated its fair value as of December 29, 2017 and June 30, 2017. The cost basis and fair value of the Company's investments classified as available-for-sale securities as of December 29, 2017, by remaining contractual maturity, were as follows:

	Cost Basis	Fair Value
	<i>(in millions)</i>	
Due in less than one year (short-term investments)	\$ 24	\$ 23
Due in one to five years (included in other non-current assets)	94	94
Total	\$ 118	\$ 117

The Company determined available-for-sale securities had no material other-than-temporary impairments in the three and six months ended December 29, 2017 or December 30, 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Financial Instruments Not Carried at Fair Value

For financial instruments where the carrying value (which includes principal adjusted for any unamortized issuance costs, and discounts or premiums) differs from fair value (which is based on quoted market prices), the following table represents the related carrying value and fair value for each of the Company's outstanding financial instruments. Each of the financial instruments presented below was categorized as Level 2 for all periods presented, based on the frequency of trading immediately prior to the end of the second quarter of 2018 and the fourth quarter of 2017, respectively.

	December 29, 2017		June 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	<i>(in millions)</i>			
Secured Notes	\$ 1,838	\$ 2,026	\$ 1,835	\$ 2,062
Unsecured Notes	3,252	3,892	3,244	3,956
Term Loan A	3,978	4,040	4,074	4,130
U.S. Term Loan B-2	—	—	2,968	2,989
U.S. Term Loan B-3	2,952	2,966	—	—
Euro Term Loan B-2 ⁽¹⁾	—	—	1,000	1,010
Convertible Debt 2020	31	33	30	34
Total	\$ 12,051	\$ 12,957	\$ 13,151	\$ 14,181

⁽¹⁾ Euro Term Loan B-2 outstanding principal amount as of June 30, 2017 was based upon the Euro to U.S. dollar exchange rate as of that respective date.

Cost Method Investments

From time to time, the Company enters into certain strategic investments for the promotion of business and strategic objectives. The Company reports these investments under the cost method of accounting as it does not have a significant influence over the operations of these investees. These investments consist of debt and equity securities of privately-held companies which do not have a readily determinable fair value and are carried at historical cost. The Company assesses these securities for indications of other-than-temporary impairments. There were no impairment charges during the three months ended December 29, 2017 and \$6 million of impairment charges for the six months ended December 29, 2017, which were included in Other income (expense), net in the Condensed Consolidated Statements of Operations. As of December 29, 2017 and June 30, 2017, these investments aggregated \$57 million and \$91 million, respectively, and are reported under Other non-current assets in the Condensed Consolidated Balance Sheets.

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Note 5. Derivative Instruments and Hedging Activities

As of December 29, 2017, the Company had outstanding foreign exchange forward contracts which were designated as either cash flow hedges or non-designated hedges. The contract maturity dates of these foreign exchange forward contracts do not exceed 12 months. In addition, the Company had outstanding interest rate swaps which were designated as cash flow hedges. The Company determined the ineffectiveness associated with its cash flow hedges to be immaterial to the Condensed Consolidated Financial Statements for the three and six months ended December 29, 2017 and December 30, 2016.

As of December 29, 2017, the amount of existing net gains related to cash flow hedges recorded in AOCI that are expected to be reclassified into earnings over the next twelve months was \$8 million. In addition, as of December 29, 2017, the Company did not have any foreign exchange forward contracts with credit-risk-related contingent features.

A change in the fair value of non-designated hedges is recognized in earnings in the period incurred and is reported as a component of Other income (expense), net. The changes in fair value on these contracts were immaterial to the Condensed Consolidated Financial Statements for the three and six months ended December 29, 2017 and December 30, 2016.

Derivative Instruments

The fair value and balance sheet location of the Company's derivative instruments were as follows:

	Derivative Assets	
	Other current assets	
	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Foreign exchange forward contracts, designated	\$ 6	\$ 6
Foreign exchange forward contracts, not designated	5	10
Interest rate swaps, designated	8	—
Total derivatives	<u>\$ 19</u>	<u>\$ 16</u>
	Derivative Liabilities	
	Accrued expenses	
	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Foreign exchange forward contracts, designated	\$ 4	\$ 2
Foreign exchange forward contracts, not designated	3	6
Interest rate swaps, designated	—	1
Total derivatives	<u>\$ 7</u>	<u>\$ 9</u>

Netting Arrangements

Under certain provisions and conditions within agreements with counterparties to the Company's foreign exchange forward contracts, subject to applicable requirements, the Company has the right of offset associated with the Company's foreign exchange forward contracts and is allowed to net settle transactions of the same currency with a single net amount payable by one party to the other. As of December 29, 2017 and June 30, 2017, the effect of rights of offset was not material and the Company did not offset or net the fair value amounts of derivative instruments in its Condensed Consolidated Balance Sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Effect of Derivative Contracts on the Condensed Consolidated Statements of Operations

The impact of derivative contracts designated as hedging instruments on the Condensed Consolidated Financial Statements was as follows:

	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Recognized in AOCI	
	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions)</i>			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	\$ 7	\$ (119)	\$ 7	\$ (97)
Interest rate swaps	7	—	8	—
Total	<u>\$ 14</u>	<u>\$ (119)</u>	<u>\$ 15</u>	<u>\$ (97)</u>
	Amount of Gain (Loss) Reclassified from AOCI into Earnings		Amount of Gain (Loss) Reclassified from AOCI into Earnings	
	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016

	<i>(in millions)</i>			
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	\$ 4	\$ 16	\$ 1	\$ 42
Total	<u>\$ 4</u>	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 42</u>

The total net realized transaction and foreign exchange forward contract currency gains and losses were not material to the Condensed Consolidated Financial Statements for the three and six months ended December 29, 2017 and December 30, 2016.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 6. Debt

Debt consisted of the following as of December 29, 2017 and June 30, 2017:

	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Variable interest rate Term Loan A maturing 2021	\$ 4,022	\$ 4,125
Variable interest rate U.S. Term Loan B-2 maturing 2023	—	2,970
Variable interest rate U.S. Term Loan B-3 maturing 2023	2,955	—
Variable interest rate Euro Term Loan B-2 maturing 2023 ⁽¹⁾	—	1,001
7.375% senior secured notes due 2023	1,875	1,875
10.500% senior unsecured notes due 2024	3,350	3,350
Convertible senior notes	35	35
Total debt	12,237	13,356
Issuance costs and debt discounts	(186)	(205)
Subtotal	12,051	13,151
Less current portion of long-term debt	(274)	(233)
Long-term debt	\$ 11,777	\$ 12,918

⁽¹⁾ Euro Term Loan B-2 outstanding principal amount as of June 30, 2017 was based upon the Euro to U.S. dollar exchange rate as of that respective date.

On November 29, 2017, the Company entered into an amendment to the credit agreement entered into on April 29, 2016 (as amended, the “Credit Agreement”), to increase the size of its existing \$1.0 billion revolving credit facility by \$500 million to \$1.5 billion. The term of the revolving credit facility remained unchanged and will mature on April 29, 2021. As of December 29, 2017, there were no borrowings under the revolving credit facility.

On November 17, 2017, the Company settled in full the principal amounts of the Euro Term Loan B-2, plus accrued interest, using cash on hand. On November 8, 2017, the Company borrowed \$2.96 billion under a new U.S. dollar-denominated term loan (“U.S. Term Loan B-3”) under its Credit Agreement and used the proceeds of this new loan to prepay in full the U.S. Term Loan B-2 previously outstanding under the Credit Agreement. The U.S. Term Loan B-3 has an interest rate equal to, at the Company’s option, either an adjusted LIBOR rate, subject to a 0.00% floor, plus 2.00% or a base rate plus 1.00% (3.57% as of December 29, 2017). Principal payments on U.S. Term Loan B-3 of 0.25% are due quarterly and began on December 29, 2017 with the balance due on April 29, 2023. The U.S. Term Loan B-3 issuance costs are amortized to interest expense over the term of the loan and as of December 29, 2017, issuance costs of \$3 million remain unamortized. In connection with the settlements of the U.S. Term Loan B-2 and Euro Term Loan B-2, the Company recognized an aggregate loss on debt extinguishment of \$2 million consisting of unamortized issuance costs.

The Credit Agreement requires the Company to comply with certain financial covenants, such as a leverage ratio and an interest coverage ratio. As of December 29, 2017, the Company was in compliance with all financial covenants. In addition, the documents governing substantially all of the Company’s outstanding debt, including the Credit Agreement, require the Company to comply with customary covenants that limit or restrict the Company’s and its subsidiaries’ ability to incur liens and indebtedness; make certain restricted payments, acquisitions, investments, loans and guarantees; and enter into certain transactions with affiliates, mergers and consolidations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 7. Pension and Other Post-Retirement Benefit Plans

The Company has pension and other post-retirement benefit plans in various countries. The Company's principal pension plans are in Japan. All pension and other post-retirement benefit plans outside of the Company's Japanese defined benefit pension plan (the "Japanese Plan") are immaterial to the Condensed Consolidated Financial Statements. The expected long-term rate of return on the Japanese Plan assets is 2.5%.

Obligations and Funded Status

The following table presents the unfunded status of the benefit obligations for the Japanese Plan:

	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Benefit obligations	\$ 249	\$ 249
Fair value of plan assets	192	189
Unfunded status	<u>\$ 57</u>	<u>\$ 60</u>

The following table presents the unfunded amounts related to the Japanese Plan as recognized on the Company's Condensed Consolidated Balance Sheets:

	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Current liabilities	\$ 1	\$ 1
Non-current liabilities	56	59
Net amount recognized	<u>\$ 57</u>	<u>\$ 60</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 8. Commitments, Contingencies and Related Parties

Flash Ventures

The Company's business ventures with Toshiba Memory Corporation ("TMC") consist of three separate legal entities: Flash Partners Ltd. ("Flash Partners"), Flash Alliance Ltd. ("Flash Alliance"), and Flash Forward Ltd. ("Flash Forward"), collectively referred to as "Flash Ventures".

In connection with a settlement agreement with Toshiba, in December 2017, the Company entered into a facility agreement ("Y6 Facility Agreement") with TMC related to the construction and operation of a new 300-millimeter wafer fabrication facility in Yokkaichi, Japan, referred to as "Fab 6", which is primarily intended to provide cleanroom space to continue the transition of existing 2D NAND manufacturing capacity to BiCS 3D NAND manufacturing capacity. Under the Y6 Facility Agreement, the Company is committed to 50% of Fab 6's start-up costs, as well as 50% of the joint ventures' portion of an upcoming investment in manufacturing equipment for Fab 6. See also Note 13, *Legal Proceedings*.

The following table presents the notes receivable from, and equity investments in, Flash Ventures as of December 29, 2017 and June 30, 2017:

	December 29, 2017	June 30, 2017
	<i>(in millions)</i>	
Notes receivable, Flash Partners	\$ 737	\$ 264
Notes receivable, Flash Alliance	101	119
Notes receivable, Flash Forward	429	379
Investment in Flash Partners	187	187
Investment in Flash Alliance	279	279
Investment in Flash Forward	112	112
Total notes receivable and investments in Flash Ventures	\$ 1,845	\$ 1,340

During the three and six months ended December 29, 2017, the Company made net payments to Flash Ventures of \$1.2 billion and \$2.0 billion, respectively, for purchased flash-based memory wafers and net loans.

The Company makes, or will make, loans to Flash Ventures to fund equipment investments for new process technologies and additional wafer capacity. The Company aggregates its Flash Ventures' notes receivable into one class of financing receivables due to the similar ownership interest and common structure in each Flash Venture entity. For all reporting periods presented, no loans were past due and no loan impairments were recorded. The Company's notes receivable from each Flash Ventures entity, denominated in Japanese yen, are secured by equipment owned by that Flash Ventures entity.

The Company assesses financing receivable credit quality through financial and operational reviews of the borrower and creditworthiness, including credit rating agency ratings, of significant investors of the borrower, where material or known. Impairments, when required for credit worthiness, are recorded in Other income (expense), net in the Condensed Consolidated Statements of Operations. There were no such impairments in the three and six months ended December 29, 2017 and December 30, 2016.

As of December 29, 2017 and June 30, 2017, the Company had accounts payable balances due to Flash Ventures of \$250 million and \$206 million, respectively.

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The Company's maximum reasonably estimable loss exposure (excluding lost profits) as a result of its involvement with Flash Ventures, based upon the Japanese yen to U.S. dollar exchange rate at December 29, 2017, is presented below. Investments in Flash Ventures are denominated in Japanese yen and the maximum possible loss exposure excludes any cumulative translation adjustment due to revaluation from the Japanese yen to the U.S. dollar.

	December 29, 2017
Notes receivable	\$ 1,267
Equity investments	578
Operating lease guarantees	941
Inventory and prepayments	268
Maximum estimable loss exposure	\$ 3,054

The Company is committed to purchase its provided three-month forecast of Flash Ventures' NAND wafer supply, which generally equals 50% of Flash Ventures' output. The Company is not able to estimate its total wafer purchase commitment obligation beyond its rolling three-month purchase commitment because the price is determined by reference to the future cost of producing the semiconductor wafers. In addition, the Company is committed to fund 49.9% to 50.0% of each Flash Ventures entity's investments to the extent that each Flash Ventures entity's operating cash flow is insufficient to fund these investments.

Off-Balance Sheet Liabilities

Flash Ventures sells and leases back from a consortium of financial institutions a portion of its tools and has entered into equipment lease agreements of which the Company guarantees half of the total outstanding obligations. The lease agreements contain customary covenants for Japanese lease facilities. In addition to containing customary events of default related to Flash Ventures that could result in an acceleration of Flash Ventures' obligations, the lease agreements contain acceleration clauses for certain events of default related to the guarantors, including the Company.

The following table presents the Company's portion of the remaining guarantee obligations under the Flash Ventures' lease facilities in both Japanese yen and U.S. dollar-equivalent, based upon the Japanese yen to U.S. dollar exchange rate as of December 29, 2017.

	Lease Amounts	
	<i>(Japanese yen, in billions)</i>	<i>(U.S. dollar, in millions)</i>
Total guarantee obligations	¥ 106	\$ 941

The following table details the breakdown of the Company's remaining guarantee obligations between the principal amortization and the purchase option exercise price at the end of the term of the Flash Ventures lease agreements, in annual installments as of December 29, 2017 in U.S. dollars, based upon the Japanese yen to U.S. dollar exchange rate as of December 29, 2017:

Annual Installments	Payment of Principal Amortization	Purchase Option Exercise Price at Final Lease Terms	Guarantee Amount
	<i>(in millions)</i>		
Year 1	\$ 267	\$ —	\$ 267
Year 2	178	34	212
Year 3	163	85	248
Year 4	80	98	178
Year 5	15	21	36
Total guarantee obligations	\$ 703	\$ 238	\$ 941

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The Company and TMC have agreed to mutually contribute to, and indemnify each other and Flash Ventures for, environmental remediation costs or liability resulting from Flash Ventures' manufacturing operations in certain circumstances. The Company has not made any indemnification payments, nor recorded any indemnification receivables, under any such agreements. As of December 29, 2017, no amounts have been accrued in the Condensed Consolidated Financial Statements with respect to these indemnification agreements.

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Note 9. Shareholders' Equity
Stock-based Compensation Expense

The following tables present the Company's stock-based compensation for equity-settled awards by type and financial statement line as well as the related tax benefit included in the Company's Condensed Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions)</i>			
Options	\$ 6	\$ 11	\$ 13	\$ 23
Restricted and performance stock units	88	90	171	169
Employee stock purchase plan	5	1	12	9
Subtotal	99	102	196	201
Tax benefit	(10)	(29)	(34)	(54)
Total	<u>\$ 89</u>	<u>\$ 73</u>	<u>\$ 162</u>	<u>\$ 147</u>

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions)</i>			
Cost of revenue	\$ 13	\$ 11	\$ 26	\$ 24
Research and development	45	43	89	87
Selling, general and administrative	41	43	81	85
Employee termination, asset impairment, and other charges	—	5	—	5
Subtotal	99	102	196	201
Tax benefit	(10)	(29)	(34)	(54)
Total	<u>\$ 89</u>	<u>\$ 73</u>	<u>\$ 162</u>	<u>\$ 147</u>

Compensation cost related to unvested stock options, restricted stock unit awards ("RSU"), performance-based restricted stock unit awards ("PSU") and the Company's Employee Stock Purchase Plan ("ESPP") will generally be amortized on a straight-line basis over the remaining average service period. The following table presents the unamortized compensation cost and weighted average service period of all unvested outstanding awards as of December 29, 2017.

	Unamortized Compensation Costs	Weighted Average Service Period
	<i>(in millions)</i>	<i>(years)</i>
Options	\$ 38	2.1
RSUs and PSUs ⁽¹⁾	600	2.2
ESPP	15	0.6
Total unamortized compensation cost	<u>\$ 653</u>	

⁽¹⁾ Weighted average service period assumes the performance metrics are met for the PSUs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Plan Activities*Stock Options*

The following table summarizes stock option activity under the Company's incentive plans:

	Number of Shares <i>(in millions)</i>	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life <i>(in years)</i>	Aggregate Intrinsic Value <i>(in millions)</i>
Options outstanding at June 30, 2017	7.4	\$ 58.14		
Exercised	(1.0)	43.16		\$ 46
Canceled or expired	(0.2)	63.44		
Options outstanding at December 29, 2017	6.2	\$ 60.39	4.1	\$ 145
Exercisable at December 29, 2017	3.6	\$ 64.14	3.4	\$ 77

RSU and PSU

The following table summarizes RSU and PSU activity under the Company's incentive plans:

	Number of Shares <i>(in millions)</i>	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value at Vest Date <i>(in millions)</i>
RSUs and PSUs outstanding at June 30, 2017	13.7	\$ 45.01	
Granted	4.0	84.95	
Vested	(2.4)	53.31	\$ 206
Forfeited	(0.7)	47.75	
RSUs and PSUs outstanding at December 29, 2017	14.6	\$ 53.41	

RSUs and PSUs are generally settled in an equal number of shares of the Company's common stock at the time of vesting of the units.

Stock Repurchase Program

The Company's Board of Directors (the "Board") has authorized \$5.00 billion for the repurchase of the Company's common stock. The stock repurchase program is effective until February 3, 2020. The Company did not repurchase any shares of common stock during the three months ended December 29, 2017. The remaining amount available to be purchased under the Company's stock repurchase program as of December 29, 2017 was \$2.10 billion.

Dividends to Shareholders

On September 13, 2012, the Company announced that the Board had authorized the adoption of a quarterly cash dividend policy. Under the cash dividend policy, holders of the Company's common stock receive dividends when and as declared by the Board.

On November 1, 2017, the Board declared a cash dividend of \$0.50 per share of the Company's common stock. The cash dividend aggregating \$149 million was paid on January 16, 2018 to the Company's shareholders of record as of December 29, 2017. On January 27, 2018, the Board declared a cash dividend of \$0.50 per share to shareholders of record as of March 30, 2018, which will be paid on April 16, 2018. The Company may modify, suspend or cancel its cash dividend policy in any manner and at any time.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 10. Income Tax Expense

The Tax Cuts and Jobs Act (“2017 Act”) was enacted on December 22, 2017. The 2017 Act includes a broad range of tax reform proposals affecting businesses, including a reduction in the U.S. federal corporate tax rate from 35% to 21%, a one-time mandatory deemed repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign earnings.

For the three and six months ended December 29, 2017, the Company has not finalized the accounting for the tax effects of the enactment of the 2017 Act. However, consistent with applicable SEC guidance, the Company has made a reasonable estimate of the effects on the Company’s existing deferred tax balances and the one-time mandatory deemed repatriation tax required by the 2017 Act and has recognized a provisional income tax expense of \$1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of \$88 million related to the re-measurement of deferred tax assets and liabilities for the three and six months ended December 29, 2017. For other elements of tax expense noted below, or where the Company has not made an election, the Company has not been able to make a reasonable estimate and continues to account for such items based on the provisions of the tax laws that were in effect immediately prior to the 2017 Act. As the Company finalizes the accounting for the tax effects of the enactment of the 2017 Act during a one-year measurement period permitted by applicable SEC guidance, the Company expects to reflect adjustments to the recorded provisional amounts and record additional tax effects of the 2017 Act.

Additional information regarding the significant provisions of the 2017 Act that are expected to impact the Company is provided below.

Re-measurement of deferred taxes

The provisional income tax benefit of \$88 million recorded for the three and six months ended December 29, 2017 related to the re-measurement of the Company’s deferred tax balance is based on the rates at which the deferred tax assets and liabilities are expected to reverse in the current and future fiscal years, which are generally 29% and 22%, respectively. However, the Company is still analyzing certain aspects of the 2017 Act and refining the calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company is also analyzing the impact of the 2017 Act to the existing valuation allowance assessments from both a federal and state tax perspective, which could potentially affect the realizability of the existing deferred tax assets. In calculating the provisional amount, the Company utilized an estimate of the expected reversals of certain tax assets and liabilities, which will be revised in future quarters during the one-year measurement period as additional information becomes available.

Mandatory deemed repatriation tax

In connection with the transition from a global to a territorial U.S. tax system, companies are required to pay a mandatory deemed repatriation tax. The tax is to be computed using the Company’s total foreign post-1986 earnings and profits that were previously deferred from U.S. income taxes. This tax is based on the amount of foreign earnings held in cash and other specified assets which are taxed at 15.5% and 8%, respectively, and is payable over an 8-year period. For the three and six months ended December 29, 2017, the Company recorded a provisional amount for the mandatory deemed repatriation tax liability of \$1.66 billion for foreign subsidiaries and \$132 million of this amount is classified as a current tax liability. The calculation of the mandatory deemed repatriation tax liability is provisional and based upon preliminary estimates of post-1986 earnings and profits. In addition, the mandatory deemed repatriation tax is based on a provisional amount of foreign earnings held in cash and other specified assets, which the Company expects will require additional clarifying guidance from U.S. Treasury. As such, the provisional amount may change during the one-year measurement period when the Company finalizes the calculation of post-1986 foreign earnings and profits and the amount of foreign earnings held in cash or other specified assets.

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Although the mandatory deemed repatriation tax has removed U.S. federal taxes on distributions to the U.S., the Company continues to evaluate the expected manner of recovery to determine whether or not to continue to assert indefinite reinvestment on a part or all the foreign undistributed earnings. This requires the Company to re-evaluate the existing short and long-term capital allocation policies in light of the 2017 Act and calculate the tax cost that is incremental to the deemed repatriation tax, (e.g. foreign withholding, state income taxes, and additional U.S. tax on currency transaction gains or losses) of repatriating cash to the U.S. While the provisional tax expense for the three and six months ended December 29, 2017 is based upon an assumption that foreign undistributed earnings are indefinitely reinvested, the Company's plan may change upon the completion of long-term capital allocation plans in light of the 2017 Act and completion of the calculation of the incremental tax effects on the repatriation of foreign undistributed earnings. In the event the Company determines not to continue to assert the permanent reinvestment of part or all of foreign undistributed earnings, such a determination could result in the accrual and payment of additional foreign, state and local taxes.

Deferred taxes on foreign earnings

As a result of the shift to a territorial system for U.S. taxation, the new minimum tax on certain foreign earnings ("global intangible low-tax income") provision of the 2017 Act imposes a tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries. This provision is effective for tax years beginning on or after January 1, 2018 which for the Company would be the fiscal year beginning on June 30, 2018 (fiscal year 2019). The Company has not progressed sufficiently in the analysis of this provision to make an election either to account for the effects of this provision either as a component of future income tax expense in the period the tax arises or as a component of deferred taxes on the related investments. Accordingly, no deferred tax assets and liabilities have been established for timing differences between foreign U.S. GAAP income and foreign earnings and profits which would be expected to reverse under the new minimum tax in future years. Additionally, the Company has not yet completed the calculation of post-1986 foreign earnings and profits for the mandatory repatriation tax, which would be the starting point for the measurement of deferred tax assets and liabilities in order to record any provisional amounts.

The following table presents the Company's income tax expense and the effective tax rate, which reflect provisional amounts related to the mandatory deemed repatriation tax and re-measurement of deferred tax assets and liabilities pursuant to the 2017 Act as discussed above:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions)</i>			
Income before taxes	\$ 774	\$ 321	\$ 1,484	\$ 50
Income tax expense	\$ 1,597	\$ 86	\$ 1,626	\$ 181
Effective tax rate	206%	27%	110%	362%

Under the 2017 Act, the reduction of the U.S. federal corporate tax rate from 35% to 21% is effective January 1, 2018 requiring companies to use a blended rate for its fiscal 2018 tax year by applying a pro-rated percentage of the number of days before and after the January 1, 2018 effective date. This results in the use of an estimated annual effective rate of approximately 28% for the Company's U.S. federal corporate tax rate for fiscal year 2018. The reduction in the U.S. federal corporate tax rate from 35% to the blended tax rate of 28% for fiscal year 2018 is estimated to have reduced the Company's income tax expense by \$7 million for the three and six months ended December 29, 2017. For fiscal year 2019 and beyond, the Company will utilize the enacted U.S. federal corporate tax rate of 21%.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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The primary drivers for the difference between the effective tax rate for the three and six months ended December 29, 2017 and the U.S. Federal statutory rate of 28% are related to the net charge of \$1.66 billion for the one-time mandatory deemed repatriation tax, offset in part by an income tax benefit related to the re-measurement of deferred taxes as required by the 2017 Act. Excluding these items, the effective tax rate for the three and six months ended December 29, 2017 would be approximately 4%. The primary drivers for the remaining difference between the effective tax rate for the three and six months ended December 29, 2017 and the U.S. Federal statutory rate of 28% are the current year generation of tax credits, and tax holidays in Malaysia, Philippines, Singapore and Thailand that expire at various dates during fiscal years 2018 through 2030 and windfall tax benefits related to vesting and exercises of stock-based awards. The windfall tax benefits are a result of the adoption of ASU 2016-09, which requires the Company to now recognize \$5 million and \$27 million of windfall tax benefits related to vesting and exercises of stock-based awards as a component of its income tax expense for the three and six months ended December 29, 2017, respectively. The windfall tax benefits for the three and six months ended December 30, 2016 were recorded within stockholders' equity.

Income tax expense for the six months ended December 30, 2016 was attributable to discrete effects consisting of income tax expense from the integration of SanDisk Corporation ("SanDisk") of \$90 million and a valuation allowance on acquired tax attributes of \$109 million, partially offset by income tax benefit from deductible debt issuance costs, debt discounts and prepayment fees from the debt extinguishment of \$96 million. The primary drivers for the difference between the effective tax rate for the six months ended December 30, 2016 and the U.S. Federal statutory rate of 35% are these discrete items, the current year generation of tax credits and tax holidays in Malaysia, Philippines, Singapore and Thailand that expire at various dates during fiscal years 2018 through 2030.

During the six months ended December 29, 2017, the Company recorded a net increase of \$7 million in its liability for unrecognized tax benefits (excluding accrued interest and penalties). As of December 29, 2017, the Company's liability for unrecognized tax benefits (excluding accrued interest and penalties) was approximately \$529 million. Accrued interest and penalties related to unrecognized tax benefits as of December 29, 2017 was approximately \$94 million.

The Internal Revenue Service ("IRS") previously completed its field examination of the Company's federal income tax returns for fiscal years 2006 through 2009 and proposed certain adjustments. The Company received Revenue Agent Reports from the IRS that seek to increase the Company's U.S. taxable income which would result in additional federal tax expense totaling \$795 million, subject to interest. The issues in dispute relate primarily to transfer pricing with the Company's foreign subsidiaries and intercompany payable balances. The Company disagrees with the proposed adjustments and in September 2015, filed a protest with the IRS Appeals Office and received the IRS rebuttal in July 2016. Meetings with the IRS Appeals Office began in March 2017. The Company believes that its tax positions are properly supported and will vigorously contest the position taken by the IRS. In September 2015, the IRS commenced an examination of the Company's fiscal years 2010 through 2012.

The Company believes that adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax examinations cannot be predicted with certainty. If any issues addressed in the Company's tax examinations are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. As of December 29, 2017, it is not possible to estimate the amount of change, if any, in the unrecognized tax benefits that is reasonably possible within the next twelve months. Any significant change in the amount of the Company's liability for unrecognized tax benefits would most likely result from additional information or settlements relating to the examination of the Company's tax returns.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 11. Net Income (Loss) Per Common Share

The following table presents the computation of basic and diluted income (loss) per common share:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions, except per share data)</i>			
Net income (loss)	\$ (823)	\$ 235	\$ (142)	\$ (131)
Weighted average shares outstanding:				
Basic	296	286	295	285
Employee stock options, RSUs, PSUs and ESPP	—	8	—	—
Diluted	296	294	295	285
Income (loss) per common share				
Basic	\$ (2.78)	\$ 0.82	\$ (0.48)	\$ (0.46)
Diluted	\$ (2.78)	\$ 0.80	\$ (0.48)	\$ (0.46)
Anti-dilutive potential common shares excluded ⁽¹⁾	12	5	12	13

⁽¹⁾ For purposes of computing diluted income (loss) per common share, certain potentially dilutive securities have been excluded from the calculation because their effect would have been anti-dilutive.

The Company computes basic income (loss) per common share using net income (loss) and the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is computed using net income (loss) and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include dilutive outstanding employee stock options, RSUs and PSUs, and rights to purchase shares of common stock under the Company's ESPP.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 12. Employee Termination, Asset Impairment and Other Charges

The Company recorded the following charges related to employee terminations benefits, asset impairment, and other charges:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
<i>(in millions)</i>				
Employee termination and other charges:				
Restructuring Plan 2016	\$ 32	\$ 19	\$ 77	\$ 46
Closure of Foreign Manufacturing Facility	—	2	—	6
Business Realignment	16	7	23	44
Total employee termination and other charges	48	28	\$ 100	\$ 96
Stock-based compensation accelerations and adjustments				
Business Realignment	—	3	—	4
Total stock-based compensation accelerations and adjustments	—	4	—	4
Asset impairment:				
Closure of Foreign Manufacturing Facility	—	13	—	13
Total asset impairment	—	13	—	13
Total employee termination and other charges, and stock-based compensation accelerations and adjustments	\$ 48	\$ 45	\$ 100	\$ 113

Restructuring Plan 2016

In 2016, the Company initiated a set of actions relating to the restructuring plan associated with the integration of substantial portions of its HGST and WD subsidiaries (“Restructuring Plan 2016”). Restructuring Plan 2016 consists of asset and footprint reduction, product road map consolidation and organization rationalization. In addition to the amounts recognized under Restructuring Plan 2016 as presented above, the Company recognized \$8 million and \$30 million of accelerated depreciation on facility assets in cost of revenue during the six months ended December 29, 2017 and December 30, 2016, respectively.

The following table presents an analysis of the components of the activity against the reserve during the six months ended December 29, 2017:

	Employee Termination Benefits	Contract Termination and Other	Total
	<i>(in millions)</i>		
Accrual balance at June 30, 2017	\$ 11	\$ 2	\$ 13
Charges	58	19	77
Cash payments	(49)	(10)	(59)
Accrual balance at December 29, 2017	\$ 20	\$ 11	\$ 31

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Business Realignment

The Company periodically incurs charges as part of the integration process of recent acquisitions and to realign its operations with anticipated market demand. The following table presents an analysis of the components of the activity against the reserve:

	Employee Termination Benefits	Contract Termination and Other	Total
	<i>(in millions)</i>		
Accrual balance at June 30, 2017	\$ 18	\$ 5	\$ 23
Charges	17	6	23
Cash payments	(14)	(4)	(18)
Accrual balance at December 29, 2017	<u>\$ 21</u>	<u>\$ 7</u>	<u>\$ 28</u>

WESTERN DIGITAL CORPORATION
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Note 13. Legal Proceedings

Unless otherwise stated below, for each of the matters described below, the Company has either recorded an accrual for losses that are probable and reasonably estimable or has determined that, while a loss is reasonably possible (including potential losses in excess of the amounts accrued by the Company), a reasonable estimate of the amount of loss or range of possible losses with respect to the claim or in excess of amounts already accrued by the Company cannot be made. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management's estimates.

Solely for purposes of this note, "WD" refers to Western Digital Corporation or one or more of its subsidiaries excluding HGST prior to the closing of the Company's acquisition of HGST on March 8, 2012 (the "HGST Closing Date") and SanDisk prior to the closing of the Company's acquisition of SanDisk on May 12, 2016 (the "SanDisk Closing Date"); "HGST" refers to Hitachi Global Storage Technologies Holdings Pte. Ltd. or one or more of its subsidiaries as of the HGST Closing Date; "SanDisk" refers to SanDisk Corporation or one or more of its subsidiaries as of the SanDisk Closing Date; and "the Company" refers to Western Digital Corporation and all of its subsidiaries on a consolidated basis including HGST and SanDisk.

Intellectual Property Litigation

In June 2008, Convole, Inc. ("Convole") filed a complaint with the U.S. District Court for the Eastern District of Texas against WD, HGST, and two other companies alleging infringement of U.S. Patent Nos. 6,314,473 and 4,916,635. The complaint sought unspecified monetary damages and injunctive relief. In October 2008, Convole amended its complaint to allege infringement of only the '473 patent. The '473 patent allegedly relates to interface technology to select between certain modes of a disk drive's operations relating to speed and noise. In July 2011, a verdict was rendered against WD and HGST in an amount that is not material to the Company's financial position, results of operations or cash flows, for which the Company previously recorded an accrual. In March 2015, WD and HGST filed notices of appeal with the U.S. District Court for the Federal Circuit ("Federal Circuit"). In April 2015, Convole filed a motion for reconsideration of the final judgment. In June 2017, the District Court vacated the judgment against WD and HGST with respect to infringement, willfulness, and damages and denied Convole's motion for reconsideration. In December 2017, WD and HGST filed an amended notice of appeal with the Federal Circuit with respect to validity. In January 2018, WD, HGST and Convole entered into a settlement agreement resolving the litigation and agreeing to seek dismissal of all claims and actions between the parties.

In May 2016, Lambeth Magnetic Structures, LLC ("Lambeth") filed a complaint with the U.S. District Court for the Western District of Pennsylvania against WD and certain of its subsidiaries alleging infringement of U.S. Patent No. 7,128,988. The complaint seeks unspecified monetary damages and injunctive relief. The '988 patent, entitled "Magnetic Material Structures, Devices and Methods," allegedly relates to a magnetic material structure for hard disk drive devices. The Company intends to defend itself vigorously in this matter.

Antitrust

In July 2010, Samsung Electronics Co., Ltd. ("Samsung") filed an action against Panasonic Corporation ("Panasonic") and SD-3C LLC ("SD-3C") with the U.S. District Court for the Northern District of California, alleging that the defendants violated federal antitrust laws and California antitrust and unfair competition laws relating to the licensing practices and operations of SD-3C. The complaint seeks damages, restitution, injunctive and declaratory relief, and fees and costs. SanDisk is not a defendant in this case, but it established SD-3C along with Panasonic and Toshiba Corporation ("Toshiba"), and the complaint includes various factual allegations concerning SanDisk. As a member of SD-3C, SanDisk could be responsible for a portion of any monetary award. Other requested relief, if granted, could result in a loss of revenue to SanDisk. In November 2015, the defendants filed a motion to dismiss. In September 2016, the District Court stayed the litigation pending the outcome of an ongoing arbitration between Samsung and Toshiba. The District Court denied the motion to dismiss without prejudice to refiling after the stay is lifted. The arbitration between Samsung and Toshiba was concluded in May 2017. In October 2017, the District Court issued an order directing Samsung and Toshiba to seek clarification from the arbitration panel regarding certain aspects of its decision.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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In March 2011, a complaint was filed against SanDisk, SD-3C, Panasonic, Panasonic Corporation of North America, Toshiba and Toshiba America Electronic Components, Inc. with the U.S. District Court for the Northern District of California. The lawsuit purports to be on behalf of a nationwide class of indirect purchasers of SD cards. The complaint asserts claims under federal antitrust laws and California antitrust and unfair competition laws, as well as common law claims. The complaint seeks damages, restitution, injunctive relief, and fees and costs. The plaintiffs allege that the defendants conspired to artificially inflate the royalty costs associated with manufacturing SD cards, which in turn allegedly caused the plaintiffs to pay higher prices for SD cards. The allegations are similar to and incorporate allegations in Samsung Electronics Co., Ltd. v. Panasonic Corp., et al., described above. In November 2015, the defendants filed a motion to dismiss the plaintiffs' federal law claims. In October 2016, the District Court granted the defendants' motion with leave to amend and the defendants filed a motion to dismiss the plaintiffs' remaining claims. Discovery is presently stayed until after completion of the pleading stage. The Company intends to defend itself vigorously in this matter.

Securities

Beginning in March 2015, SanDisk and two of its officers, Sanjay Mehrotra and Judy Bruner, were named in three putative class action lawsuits filed with the U.S. District Court for the Northern District of California. Two complaints are allegedly brought on behalf of a class of purchasers of SanDisk's securities between October 2014 and March 2015, and one is brought on behalf of a purported class of purchasers of SanDisk's securities between April 2014 and April 2015. The complaints generally allege violations of federal securities laws arising out of alleged misstatements or omissions by the defendants during the alleged class periods. The complaints seek, among other things, damages and fees and costs. In July 2015, the District Court consolidated the cases and appointed Union Asset Management Holding AG and KBC Asset Management NV as lead plaintiffs. The lead plaintiffs filed an amended complaint in August 2015. In January 2016, the District Court granted the defendants' motion to dismiss and dismissed the amended complaint with leave to amend. In February 2016, the District Court issued an order appointing as new lead plaintiffs Bristol Pension Fund; City of Milford, Connecticut Pension & Retirement Board; Pavers and Road Builders Pension, Annuity and Welfare Funds; the Newport News Employees' Retirement Fund; and Massachusetts Laborers' Pension Fund (collectively, the "Institutional Investor Group"). In March 2016, the Institutional Investor Group filed an amended complaint. In June 2016, the District Court granted the defendants' motion to dismiss and dismissed the amended complaint with leave to amend. In July 2016, the Institutional Investor Group filed a further amended complaint. In June 2017, the District Court denied the defendants' motion to dismiss. The Company intends to defend itself vigorously in this matter.

Toshiba Matters

In December 2017, the Company entered into a Confidential Settlement and Mutual Release Agreement (the "Toshiba Settlement Agreement") with Toshiba and TMC. Under the Toshiba Settlement Agreement, the parties agreed to withdraw and seek dismissal of the litigation and arbitration proceedings discussed below. Further information about the Toshiba Settlement Agreement is set forth below under "Settlement Agreement."

Proceedings

In July 2017, the Company received a petition for provisional disposition that was filed by Toshiba and TMC in the Tokyo District Court. The petition alleged that the Company engaged in acts of defamation and wrongful acquisition and use of trade secrets in violation of the Unfair Competition Prevention Act. The petition requested injunctive relief.

In August 2017, the Company received a complaint filed by Toshiba and TMC in the Tokyo District Court seeking a permanent injunction and damages of 120 billion Japanese yen. The complaint was based on the same allegations as the petition for provisional disposition.

In May 2017, several of the Company's SanDisk subsidiaries (the "SanDisk Subsidiaries") filed a request for arbitration with the ICC International Court of Arbitration seeking an order requiring Toshiba to unwind the transfer of its interests in Flash Ventures to its affiliate, TMC, and injunctive relief preventing Toshiba from further breaching the Flash Ventures agreements in violation of the SanDisk Subsidiaries' consent rights. In June 2017, the SanDisk Subsidiaries sought preliminary injunctive relief in the Superior Court of the State of California for the County of San Francisco in aid of that arbitration. Among other things, SanDisk asked the Superior Court to prevent Toshiba from transferring its interests in Flash Ventures until the SanDisk Subsidiaries could seek injunctive relief in the arbitration to prevent a transfer.

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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In July 2017, SanDisk LLC filed a request for arbitration with the ICC International Court of Arbitration against Toshiba seeking damages and injunctive relief for, among other things, blocking certain employees of SanDisk's affiliates from accessing shared databases regarding Flash Ventures and from refusing to ship certain engineering wafers and samples to SanDisk's affiliates in breach of the agreements governing the joint venture (the "Access Restrictions"). SanDisk LLC also sought injunctive relief, a preliminary injunction and a temporary restraining order, in aid of that arbitration from the Superior Court of the State of California for the County of San Francisco. In July 2017, SanDisk LLC amended its request for arbitration to, among other things, add TMC as a defendant.

In September 2017, the SanDisk Subsidiaries filed a request for arbitration with the ICC International Court of Arbitration against Toshiba in relation to Toshiba's announced decision to invest unilaterally in manufacturing equipment for the Fab 6 clean room at the joint venture operations in Yokkaichi, Japan. The SanDisk Subsidiaries sought, among other things, a permanent injunction preventing Toshiba from making unilateral investments in capacity expansions and conversions for 3-dimensional ("3D") NAND technology, which we refer to as BiCS 3D NAND-flash memory, including investments in manufacturing equipment for Fab 6, without first complying with its obligations with respect to giving the SanDisk Subsidiaries the opportunity to make comparable investments.

Settlement Agreement

In December 2017, the Company, the SanDisk Subsidiaries, Toshiba and TMC entered into the Toshiba Settlement Agreement pursuant to which the parties agreed to withdraw and seek dismissal of the proceedings above and mutually release each other from all claims relating to, among other things, (i) the transfer of Toshiba's equity interests in Flash Ventures to TMC, (ii) the Access Restrictions, (iii) TMC's decision to invest unilaterally in Phase I of Fab 6 and (iv) the sale of TMC to K.K. Pangea ("Pangea"), which will be owned, as of the closing of the sale, by certain members of a consortium of investors led by Bain Capital (as defined below). In addition, the Company agreed to consent to the transfer of Toshiba's interests in Flash Ventures to TMC, the assignment of all agreements relating to Flash Ventures by Toshiba to TMC and the sale of TMC to Pangea. Toshiba and TMC have also agreed to end the Access Restrictions. For a period of three years following the closing of the sale of TMC to Pangea, the Company's consent shall be required for any issuance or transfer of equity securities, voting rights or control in TMC by TMC, Toshiba, Bain Capital or their respective affiliates to certain restricted parties, subject to certain limited exceptions. Pursuant to the Toshiba Settlement Agreement, the Company and the SanDisk Subsidiaries also entered into certain other agreements with TMC related to the operation of Flash Ventures, including an agreement regarding the construction and operation of Fab 6 and the extension of the term of Flash Alliance.

In December 2017, the Company and the SanDisk Subsidiaries also entered into a Confidential Settlement Agreement and Mutual Release with Bain Capital Private Equity, L.P., BCPE Pangea Cayman, L.P., BCPE Pangea Cayman2, Ltd., Bain Capital Fund XII, L.P., Bain Capital Asia Fund III, L.P. and Pangea (together, "Bain Capital") on terms substantially similar to the terms of the Toshiba Settlement Agreement, subject to certain transfer restrictions on Bain Capital.

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Copyright

In December 2011, the German Central Organization for Private Copying Rights (Zentralstelle für private Überspielungsrechte) (“ZPÜ”), an organization consisting of several copyright collecting societies, instituted arbitration proceedings against WD’s German subsidiary (“WD Germany”) before the Copyright Arbitration Board (“CAB”) claiming copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce in Germany by WD Germany from January 2008 through December 2010. In February 2013, WD Germany filed a declaratory relief action against ZPÜ in the Higher Regional Court of Munich (the “Higher Court”), seeking an order from the Higher Court to determine the copyright levy issue. In May 2013, ZPÜ filed a counter-claim against WD Germany with the Higher Court, seeking copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce from January 2008 through December 2010 based on tariffs published by ZPÜ in November 2011. In January 2015, the Higher Court ruled in favor of ZPÜ. In its ruling, the Higher Court declared that WD Germany must pay certain levies on certain products which it sold in Germany between January 2008 and December 2010. The judgment specified levy amounts on certain products sold from January 2008 through December 2010 and directed WD Germany to disclose applicable sales data to ZPÜ. The exact amount of the judgment had not been determined. ZPÜ and WD Germany filed appeals with the German Federal Court of Justice in February 2015. In March 2017, the German Federal Court of Justice rendered a judgment affirming ZPÜ’s claim concerning the disclosure of WD Germany’s sales data regarding HDDs sold between January 2008 and December 2010. The German Federal Court of Justice also set aside the Higher Court’s decision on the levy amounts and referred the case back to the Higher Court for further fact finding and decision on the levy amounts. The Company intends to defend itself vigorously in this matter.

In December 2014, ZPÜ submitted a pleading to the CAB seeking copyright levies for multimedia hard drives, external hard drives and network hard drives sold or introduced into commerce in Germany by WD Germany between January 2012 and December 2013. The Company intends to defend itself vigorously in this matter.

The Company has recorded an accrual for German copyright levies in an amount that is not material to the Company’s financial position, results of operations or cash flows; however, it is reasonably possible that the Company could incur losses totaling up to \$177 million, inclusive of amounts accrued, if it does not prevail in this matter.

Other Matters

In the normal course of business, the Company is subject to other legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of probable monetary liability or financial impact with respect to these other matters is subject to many uncertainties, management believes that any monetary liability or financial impact to the Company from these other matters, individually and in the aggregate, would not be material to the Company’s financial condition, results of operations or cash flows. However, any monetary liability and financial impact to the Company from these other matters could differ materially from the Company’s expectations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 14. Separate Financial Information of Guarantor Subsidiaries

The Company's 10.500% senior unsecured notes due 2024 ("Unsecured Notes") are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, subject to certain customary guarantor release conditions, by the WD Guarantors (or the "Guarantor Subsidiaries"). The guarantee by a Guarantor Subsidiary will be released in the event of (i) the designation of a Guarantor Subsidiary as an unrestricted subsidiary under the indenture governing the Unsecured Notes, (ii) the release of a Guarantor Subsidiary from its guarantee of indebtedness under the Credit Agreement or other indebtedness that would have required the Guarantor Subsidiary to guarantee the Unsecured Notes, (iii) the sale, issuance or other disposition of capital stock of a Guarantor Subsidiary such that it is no longer a restricted subsidiary under the indenture governing the Unsecured Notes, (iv) the sale of all or substantially all of a Guarantor Subsidiary's assets, (v) the Company's exercise of its defeasance options under the indenture governing the Unsecured Notes, (vi) the dissolution or liquidation of a Guarantor Subsidiary or (vii) the sale of all the equity interest in a Guarantor Subsidiary. The Company's other domestic subsidiaries and its foreign subsidiaries (collectively, the "Non-Guarantor Subsidiaries") do not guarantee the Unsecured Notes. The following condensed consolidating financial information reflects the summarized financial information of Western Digital Corporation ("Parent"), the Guarantor Subsidiaries on a combined basis, and the Non-Guarantor Subsidiaries on a combined basis.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Condensed Consolidating Balance Sheet
As of December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
<i>(in millions)</i>					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 22	\$ 1,187	\$ 5,063	\$ —	\$ 6,272
Short-term investments	—	—	23	—	23
Accounts receivable, net	—	1,207	845	—	2,052
Intercompany receivables	1,760	3,670	1,997	(7,427)	—
Inventories	—	1,076	1,481	(276)	2,281
Other current assets	5	181	264	35	485
Total current assets	1,787	7,321	9,673	(7,668)	11,113
Property, plant and equipment, net	—	1,100	1,954	—	3,054
Notes receivable and investments in Flash Ventures	—	—	1,845	—	1,845
Goodwill	—	387	9,689	—	10,076
Other intangible assets, net	—	44	3,186	—	3,230
Investments in consolidated subsidiaries	19,030	18,314	—	(37,344)	—
Loans due from consolidated affiliates	3,306	16	—	(3,322)	—
Other non-current assets	51	612	461	(602)	522
Total assets	\$ 24,174	\$ 27,794	\$ 26,808	\$ (48,936)	\$ 29,840
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ 227	\$ 1,694	\$ —	\$ 1,921
Accounts payable to related parties	—	—	250	—	250
Intercompany payables	609	4,500	2,318	(7,427)	—
Accrued expenses	273	457	426	35	1,191
Accrued compensation	—	340	183	—	523
Accrued warranty	—	5	189	—	194
Current portion of long-term debt	274	—	—	—	274
Total current liabilities	1,156	5,529	5,060	(7,392)	4,353
Long-term debt	11,746	—	31	—	11,777
Loans due to consolidated affiliates	—	492	2,830	(3,322)	—
Other liabilities	—	2,523	517	(602)	2,438
Total liabilities	12,902	8,544	8,438	(11,316)	18,568
Total shareholders' equity	11,272	19,250	18,370	(37,620)	11,272
Total liabilities and shareholders' equity	\$ 24,174	\$ 27,794	\$ 26,808	\$ (48,936)	\$ 29,840

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
As of June 30, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
<i>(in millions)</i>					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 18	\$ 1,212	\$ 5,124	\$ —	\$ 6,354
Short-term investments	—	—	24	—	24
Accounts receivable, net	—	1,247	701	—	1,948
Intercompany receivables	1,225	2,528	622	(4,375)	—
Inventories	—	1,133	1,494	(286)	2,341
Other current assets	4	158	221	6	389
Total current assets	1,247	6,278	8,186	(4,655)	11,056
Property, plant and equipment, net	—	1,124	1,909	—	3,033
Notes receivable and investments in Flash Ventures	—	—	1,340	—	1,340
Goodwill	—	331	9,683	—	10,014
Other intangible assets, net	—	11	3,812	—	3,823
Investments in consolidated subsidiaries	19,082	17,588	—	(36,670)	—
Loans due from consolidated affiliates	4,700	16	—	(4,716)	—
Other non-current assets	51	723	419	(599)	594
Total assets	\$ 25,080	\$ 26,071	\$ 25,349	\$ (46,640)	\$ 29,860
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ 257	\$ 1,887	\$ —	\$ 2,144
Accounts payable to Flash Ventures	—	—	206	—	206
Intercompany payables	270	4,039	66	(4,375)	—
Accrued expenses	270	360	439	—	1,069
Accrued compensation	—	313	193	—	506
Accrued warranty	—	4	182	—	186
Current portion of long-term debt	233	—	—	—	233
Total current liabilities	773	4,973	2,973	(4,375)	4,344
Long-term debt	12,889	—	29	—	12,918
Loans due to consolidated affiliates	—	546	4,170	(4,716)	—
Other liabilities	—	1,243	530	(593)	1,180
Total liabilities	13,662	6,762	7,702	(9,684)	18,442
Total shareholders' equity	11,418	19,309	17,647	(36,956)	11,418
Total liabilities and shareholders' equity	\$ 25,080	\$ 26,071	\$ 25,349	\$ (46,640)	\$ 29,860

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the three months ended December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Revenue, net	\$ —	\$ 3,764	\$ 5,173	\$ (3,601)	\$ 5,336
Cost of revenue	—	3,256	3,703	(3,636)	3,323
Gross profit	—	508	1,470	35	2,013
Operating expenses:					
Research and development	—	400	229	—	629
Selling, general and administrative	1	276	104	—	381
Intercompany operating expense (income)	—	(430)	430	—	—
Employee termination, asset impairment, and other charges	—	10	38	—	48
Total operating expenses	1	256	801	—	1,058
Operating income (loss)	(1)	252	669	35	955
Interest and other income (expense):					
Interest income	66	2	12	(66)	14
Interest expense	(197)	(4)	(62)	66	(197)
Other income (expense), net	—	(4)	6	—	2
Total interest and other expense, net	(131)	(6)	(44)	—	(181)
Income (loss) before taxes	(132)	246	625	35	774
Equity in earnings from subsidiaries	(725)	593	—	132	—
Income tax expense (benefit)	(34)	1,601	30	—	1,597
Net income (loss)	\$ (823)	\$ (762)	\$ 595	\$ 167	\$ (823)

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the six months ended December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Revenue, net	\$ —	\$ 7,474	\$ 10,254	\$ (7,211)	\$ 10,517
Cost of revenue	—	6,456	7,350	(7,215)	6,591
Gross profit	—	1,018	2,904	4	3,926
Operating expenses:					
Research and development	—	781	440	—	1,221
Selling, general and administrative	3	534	208	—	745
Intercompany operating expense (income)	—	(830)	830	—	—
Employee termination, asset impairment, and other charges	—	21	79	—	100
Total operating expenses	3	506	1,557	—	2,066
Operating income (loss)	(3)	512	1,347	4	1,860
Interest and other income (expense):					
Interest income	147	4	26	(147)	30
Interest expense	(401)	(10)	(138)	147	(402)
Other income (expense), net	(8)	7	(3)	—	(4)
Total interest and other income (expense), net	(262)	1	(115)	—	(376)
Income (loss) before taxes	(265)	513	1,232	4	1,484
Equity in earnings from subsidiaries	32	1,185	—	(1,217)	—
Income tax expense (benefit)	(91)	1,655	62	—	1,626
Net income (loss)	\$ (142)	\$ 43	\$ 1,170	\$ (1,213)	\$ (142)

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the three months ended December 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Revenue, net	\$ —	\$ 3,786	\$ 4,245	\$ (3,143)	\$ 4,888
Cost of revenue	—	3,085	3,495	(3,225)	3,355
Gross profit	—	701	750	82	1,533
Operating expenses:					
Research and development	—	372	213	—	585
Selling, general and administrative	3	252	103	—	358
Intercompany operating expense (income)	—	(218)	218	—	—
Employee termination, asset impairment, and other charges	—	9	36	—	45
Total operating expenses	3	415	570	—	988
Operating income (loss)	(3)	286	180	82	545
Interest and other income (expense):					
Interest income	86	—	2	(83)	5
Interest expense	(203)	—	(85)	83	(205)
Other expense, net	(2)	(5)	(17)	—	(24)
Total interest and other expense, net	(119)	(5)	(100)	—	(224)
Income (loss) before taxes	(122)	281	80	82	321
Equity in earnings from subsidiaries	270	19	—	(289)	—
Income tax expense (benefit)	(87)	116	57	—	86
Net income	\$ 235	\$ 184	\$ 23	\$ (207)	\$ 235

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the six months ended December 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Revenue, net	\$ —	\$ 7,484	\$ 8,538	\$ (6,420)	\$ 9,602
Cost of revenue	—	6,150	7,048	(6,464)	6,734
Gross profit	—	1,334	1,490	44	2,868
Operating expenses:					
Research and development	—	813	411	—	1,224
Selling, general and administrative	4	526	224	—	754
Intercompany operating expense (income)	—	(569)	569	—	—
Employee termination, asset impairment, and other charges	—	58	55	—	113
Total operating expenses	4	828	1,259	—	2,091
Operating income (loss)	(4)	506	231	44	777
Interest and other income (expense):					
Interest income	180	1	9	(180)	10
Interest expense	(431)	(5)	(185)	180	(441)
Other expense, net	(274)	(4)	(18)	—	(296)
Total interest and other expense, net	(525)	(8)	(194)	—	(727)
Income (loss) before taxes	(529)	498	37	44	50
Equity in earnings from subsidiaries	217	(208)	—	(9)	—
Income tax expense (benefit)	(181)	121	241	—	181
Net income (loss)	\$ (131)	\$ 169	\$ (204)	\$ 35	\$ (131)

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the three months ended December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Net income (loss)	\$ (823)	\$ (762)	\$ 595	\$ 167	\$ (823)
Other comprehensive income, before tax:					
Foreign currency translation adjustment	6	5	5	(10)	6
Net unrealized gain on derivative contracts	10	3	3	(6)	10
Net unrealized gain on available-for-sale securities	—	—	—	—	—
Total other comprehensive income, before tax	16	8	8	(16)	16
Income tax benefit (expense) related to items of other comprehensive income	(3)	—	1	(1)	(3)
Other comprehensive income, net of tax	13	8	9	(17)	13
Total comprehensive income (loss)	\$ (810)	\$ (754)	\$ 604	\$ 150	\$ (810)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the six months ended December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Net income (loss)	\$ (142)	\$ 43	\$ 1,170	\$ (1,213)	\$ (142)
Other comprehensive income, before tax:					
Actuarial pension gain	—	—	—	—	—
Foreign currency translation adjustment	2	1	1	(2)	2
Net unrealized gain on derivative contracts	14	6	6	(12)	14
Net unrealized loss on available-for-sale securities	(1)	(1)	(1)	2	(1)
Total other comprehensive income, before tax	15	6	6	(12)	15
Income tax benefit (expense) related to items of other comprehensive income	(3)	—	(1)	1	(3)
Other comprehensive income, net of tax	12	6	5	(11)	12
Total comprehensive income (loss)	\$ (130)	\$ 49	\$ 1,175	\$ (1,224)	\$ (130)

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the three months ended December 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Net income	\$ 235	\$ 184	\$ 23	\$ (207)	\$ 235
Other comprehensive loss, before tax:					
Actuarial pension gain	1	1	1	(2)	1
Foreign currency translation adjustment	(186)	(186)	(210)	396	(186)
Net unrealized loss on derivative contracts	(136)	(136)	(132)	268	(136)
Total other comprehensive loss, before tax	(321)	(321)	(341)	662	(321)
Income tax benefit related to items of other comprehensive loss	9	10	9	(19)	9
Other comprehensive loss, net of tax	(312)	(311)	(332)	643	(312)
Total comprehensive loss	<u>\$ (77)</u>	<u>\$ (127)</u>	<u>\$ (309)</u>	<u>\$ 436</u>	<u>\$ (77)</u>

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the six months ended December 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
	<i>(in millions)</i>				
Net income (loss)	\$ (131)	\$ 169	\$ (204)	\$ 35	\$ (131)
Other comprehensive loss, before tax:					
Actuarial pension gain	6	6	6	(12)	6
Foreign currency translation adjustment	(169)	(169)	(192)	361	(169)
Net unrealized loss on derivative contracts	(140)	(140)	(136)	276	(140)
Total other comprehensive loss, before tax	(303)	(303)	(322)	625	(303)
Income tax benefit related to items of other comprehensive loss	3	3	1	(4)	3
Other comprehensive loss, net of tax	(300)	(300)	(321)	621	(300)
Total comprehensive loss	<u>\$ (431)</u>	<u>\$ (131)</u>	<u>\$ (525)</u>	<u>\$ 656</u>	<u>\$ (431)</u>

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the six months ended December 29, 2017

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
<i>(in millions)</i>					
Cash flows from operating activities					
Net cash provided by (used in) operating activities	\$ (279)	\$ 108	\$ 2,560	\$ (74)	\$ 2,315
Cash flows from investing activities					
Purchases of property, plant and equipment	—	(113)	(303)	—	(416)
Proceeds from the sale of property, plant and equipment	—	—	10	—	10
Acquisitions, net of cash acquired	—	(93)	(6)	—	(99)
Purchases of investments	—	(11)	(46)	—	(57)
Proceeds from sale of investments	—	—	29	—	29
Proceeds from maturities of investments	—	—	16	—	16
Notes receivable issuances to Flash Ventures	—	—	(621)	—	(621)
Notes receivable proceeds from Flash Ventures	—	—	112	—	112
Strategic investments and other, net	—	(1)	20	—	19
Intercompany loan from consolidated affiliates	1,395	—	—	(1,395)	—
Advances from (to) parent and consolidated affiliates	65	(65)	—	—	—
Net cash provided by (used in) investing activities	1,460	(283)	(789)	(1,395)	(1,007)
Cash flows from financing activities					
Issuance of stock under employee stock plans	99	—	—	—	99
Taxes paid on vested stock awards under employee stock plans	(67)	—	—	—	(67)
Dividends paid to shareholders	(295)	—	—	—	(295)
Settlement of debt hedge contracts	28	—	—	—	28
Repayment of debt	(4,114)	—	—	—	(4,114)
Proceeds from debt	2,963	—	—	—	2,963
Debt issuance costs	(5)	—	—	—	(5)
Intercompany loan to consolidated affiliates	—	(54)	(1,341)	1,395	—
Change in investment in consolidated subsidiaries	214	204	(492)	74	—
Net cash provided by (used in) financing activities	(1,177)	150	(1,833)	1,469	(1,391)
Effect of exchange rate changes on cash	—	—	1	—	1
Net increase (decrease) in cash and cash equivalents	4	(25)	(61)	—	(82)
Cash and cash equivalents, beginning of year	18	1,212	5,124	—	6,354
Cash and cash equivalents, end of period	\$ 22	\$ 1,187	\$ 5,063	\$ —	\$ 6,272

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the six months ended December 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total Company
<i>(in millions)</i>					
Cash flows from operating activities					
Net cash provided by (used in) operating activities	\$ (256)	\$ 211	\$ 1,443	\$ 102	\$ 1,500
Cash flows from investing activities					
Purchases of property, plant and equipment	—	(136)	(194)	—	(330)
Proceeds from the sale of property, plant and equipment	—	—	1	—	1
Purchases of investments	—	—	(239)	—	(239)
Proceeds from sale of investments	—	—	55	—	55
Proceeds from maturities of investments	—	—	279	—	279
Investments in Flash Ventures	—	—	(20)	—	(20)
Notes receivable issuances to Flash Ventures	—	—	(309)	—	(309)
Notes receivable proceeds from Flash Ventures	—	—	259	—	259
Strategic investments and other, net	—	—	(12)	—	(12)
Intercompany loans from consolidated affiliates	770	40	—	(810)	—
Advances from (to) consolidated affiliates	293	(285)	—	(8)	—
Net cash provided by (used in) investing activities	1,063	(381)	(180)	(818)	(316)
Cash flows from financing activities					
Issuance of stock under employee stock plans	90	—	—	—	90
Taxes paid on vested stock awards under employee stock plans	(40)	—	—	—	(40)
Excess tax benefits from employee stock plans	56	—	—	—	56
Proceeds from acquired call option	—	—	61	—	61
Dividends paid to shareholders	(284)	—	—	—	(284)
Repayment of debt	(4,767)	(2,995)	(492)	—	(8,254)
Proceeds from debt	3,992	—	—	—	3,992
Debt issuance costs	(7)	—	—	—	(7)
Intercompany loan to consolidated affiliates	—	(5,966)	5,156	810	—
Change in investment in consolidated subsidiaries	199	8,808	(8,913)	(94)	—
Net cash used in financing activities	(761)	(153)	(4,188)	716	(4,386)
Effect of exchange rate changes on cash	—	—	(9)	—	(9)
Net increase (decrease) in cash and cash equivalents	46	(323)	(2,934)	—	(3,211)
Cash and cash equivalents, beginning of year	—	1,206	6,945	—	8,151
Cash and cash equivalents, end of period	\$ 46	\$ 883	\$ 4,011	\$ —	\$ 4,940

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Note 15. Subsequent Events

In January 2018, the Company announced its planned issuance of \$2.30 billion aggregate principal amount of 4.750% senior unsecured notes due 2026 (the “2026 Notes”) and \$1.00 billion aggregate principal amount of 1.5% convertible senior notes due 2024 (the “2024 Convertible Notes”). The 2024 Convertible Notes will be convertible into cash, shares of the Company’s common stock or a combination thereof, at an initial conversion price of approximately \$121.91 per share. The issuance of the 2026 Notes and 2024 Convertible Notes is subject to customary closing conditions.

On January 29, 2018, the Company commenced a cash tender offer with respect to any and all of its outstanding \$3.35 billion aggregate principal amount of 10.500% senior unsecured notes due 2024 (the “2024 Unsecured Notes”). The consideration offered for the 2024 Unsecured Notes is a total consideration of \$1,167.25 per \$1,000 principal amount, which includes the tender offer consideration of \$1,137.25 and an early tender premium of \$30.00. On January 30, 2018, the Company delivered a notice of conditional redemption with respect to the 2024 Unsecured Notes, with a March 1, 2018 redemption date. The redemption of the 2024 Unsecured Notes is conditioned upon the issuance of the 2026 Notes. On January 30, 2018, the Company also delivered a notice of conditional redemption with respect to its outstanding \$1.88 billion aggregate principal amount of 7.375% senior secured notes due 2023 (the “2023 Secured Notes”), with a March 1, 2018 redemption date. The redemption of the 2023 Secured Notes is conditioned upon the issuance of the 2024 Convertible Notes and/or an increase in the Company’s Term Loan A credit facility that collectively generates proceeds in excess of \$2 billion.

Since December 29, 2017, the Company also resumed its stock repurchase program and has repurchased approximately \$151 million of its common stock in privately negotiated transactions, at a purchase price per share equal to \$87.08 per share, with available cash on hand.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws, and should be read in conjunction with the disclosures we make concerning risks and other factors that may affect our business and operating results. You should read this information in conjunction with the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited Consolidated Financial Statements and notes thereto and Part II, Item 8, contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017. See also “Forward-Looking Statements” immediately prior to Part I, Item 1 in this Quarterly Report on Form 10-Q.

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

Our Company

We are a leading developer, manufacturer and provider of data storage devices and solutions that address the evolving needs of the information technology (“IT”) industry and the infrastructure that enables the proliferation of data in virtually every industry. Our broad portfolio of technology and products address the following key markets: Client Devices; Data Center Devices and Solutions; and Client Solutions. We also generate license and royalty revenue related to our intellectual property (“IP”), which is included in each of these three categories.

Our fiscal year ends on the Friday nearest to June 30 and typically consists of 52 weeks. Fiscal years 2018, which ends on June 29, 2018, and 2017, which ended on June 30, 2017, are both comprised 52 weeks, with all quarters presented consisting of 13 weeks.

Key Developments

Refinancing Transactions

In January 2018, we announced our planned issuance of \$2.30 billion aggregate principal amount of 4.750% senior unsecured notes due 2026 (the “2026 Notes”) and \$1.00 billion aggregate principal amount of 1.5% convertible senior notes due 2024 (the “2024 Convertible Notes”). We intend to use the net proceeds of these offerings, together with available cash on hand and, with respect to the 2024 Convertible Notes, approximately \$1 billion of proceeds from an anticipated increase in the size of our existing Term Loan A (the “TLA Increase”), to fund a cash tender offer and/or redemption of all of our currently outstanding 10.500% senior unsecured notes due 2024 (the “2024 unsecured notes”) and the redemption of all of our currently outstanding 7.375% senior secured notes due 2023 (the “2023 secured notes”). The offering of the 2026 Notes and 2024 Convertible Notes, the TLA Increase, the tender offer and/or redemption of the 2024 unsecured notes and the redemption of the 2023 secured notes are collectively referred to as the “Refinancing Transactions”.

The Refinancing Transactions are expected to be completed in the third quarter of fiscal year 2018, subject to customary closing conditions.

In connection with the Refinancing Transactions, we have announced that we intend to repurchase up to \$500 million of our common stock in privately negotiated or open market transactions. Since December 29, 2017, we have repurchased approximately \$151 million of our common stock in privately negotiated transactions, at a purchase price per share equal to \$87.08 per share, with available cash on hand.

Tax Reform

On December 22, 2017, the President of the United States of America signed the Tax Cuts and Jobs Act (the “2017 Act”), which includes a broad range of tax reform proposals affecting businesses, including a reduction in the U.S. federal corporate tax rate from 35% to 21%, a one-time mandatory deemed repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred, and new taxes on certain foreign earnings. As a result of the 2017 Act, we have made a reasonable estimate of the effects on the Company’s existing deferred tax balances and the one-time mandatory deemed repatriation tax required by the 2017 Act and have recognized a provisional income tax expense of \$1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of \$88 million related to the re-measurement of deferred tax assets and liabilities for the three and six months ended December 29, 2017. For additional information regarding the 2017 Act, see Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. See also the discussion in “Results of Operations-Income Tax Expense” and “Liquidity and Capital Resources” below for information regarding the impact of the 2017 Act on the Company’s financial condition, results of operations and cash flows.

Ventures with TMC

Through our strategic partnership with Toshiba Memory Corporation (“TMC”), which consists of three separate legal entities: Flash Partners Ltd., Flash Alliance Ltd. and Flash Forward Ltd., collectively referred to as “Flash Ventures”, we and TMC currently operate three business ventures in 300-millimeter NAND-flash manufacturing facilities in Yokkaichi, Japan, which provide us leading-edge, cost-competitive NAND wafers for our end products.

In September 2017, Toshiba Corporation (“Toshiba”), of which TMC is a wholly owned subsidiary, announced it had entered into a definitive agreement to sell TMC, including its interest in Flash Ventures, to a consortium led by SK Hynix Inc. and Bain Capital Private Equity, L.P., BCPE Pangea Cayman, L.P., BCPE Pangea Cayman2, Ltd., Bain Capital Fund XII, L.P., Bain Capital Asia Fund III, L.P. and Pangea (together, “Bain Capital”), that includes other competitors, as well as key customers. We previously asserted our consent rights under the terms of the Flash Ventures agreements with respect to the transactions involving, among other things, the transfer by Toshiba of its interests in Flash Ventures to TMC, and the proposed sale of TMC to a consortium of investors led by Bain Capital. In December 2017, we entered into a Confidential Settlement and Mutual Release Agreement (the “Toshiba Settlement Agreement”) with Toshiba and TMC pursuant to which the parties agreed to withdraw and seek dismissal of the litigation and arbitration proceedings related to the transfer of Toshiba’s interests in Flash Ventures and related matters. In addition to the settlement with Toshiba and TMC, we also entered into a settlement agreement with Bain Capital and certain other agreements with TMC related to the operation of Flash Ventures. See Part I, Item 1, Note 13, *Legal Proceedings*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a further discussion of the litigation and arbitration proceedings between the parties and the Toshiba Settlement Agreement.

See Part I, Item 1, Note 8, *Commitments, Contingencies and Related Parties*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information on Flash Ventures.

Y6 Facility Agreement

In connection with the Toshiba Settlement Agreement, in December 2017, we entered into a facility agreement (the “Y6 Facility Agreement”) with TMC regarding the construction and operation of a new 300-millimeter wafer fabrication facility in Yokkaichi, Japan, referred to as “Fab 6”. The primary purpose of Fab 6, which is located adjacent to the fabrication facilities in Yokkaichi currently utilized by Flash Ventures, is to provide cleanroom space to continue the transition of the parties’ existing 2D NAND manufacturing capacity to BiCS 3D NAND manufacturing capacity. The Y6 Facility Agreement establishes terms for the manufacture of NAND in Fab 6 and amends the existing agreements governing Flash Ventures to provide for their use of Fab 6. We have agreed to fund 50% of Fab 6’s start-up costs, as well as 50% of Flash Ventures’ portion of an upcoming investment in manufacturing equipment for Fab 6. The Company’s share of the initial commitment is expected to be approximately \$950 million, mostly for equipment investments and some start-up costs to be incurred primarily through calendar 2018.

Extension of Joint Venture Agreements

In connection with the Toshiba Settlement Agreement, in December 2017, we also entered into agreements with TMC to extend the term of Flash Alliance Ltd. to December 31, 2029 and the term of Flash Forward Ltd. to December 31, 2027. The term of Flash Partners Ltd. was previously extended to December 31, 2029.

Debt Facilities

During the second quarter ended December 29, 2017, we settled certain debt facilities, entered into new debt facilities at lower rates and increased our revolving credit facility. The financing arrangement activities were as follows:

- We settled our existing U.S dollar-denominated term B-2 loans (“U.S. Term Loan B-2”) with the proceeds of a new issuance of a \$2.96 billion U.S. dollar-denominated term loan (“U.S. Term Loan B-3”) at an interest rate lower than our U.S. Term Loan B-2 tranche.
- We made a voluntary prepayment of the full principal amounts of our Euro-denominated term B-2 loans (“Euro Term Loan B-2”) using cash on hand.
- We increased the size of our existing \$1 billion revolving credit facility by \$500 million to \$1.5 billion. The terms of our revolving credit facility remained unchanged.

For additional information regarding our debt facilities, see Part I, Item 1, Note 6, *Debt*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Results of Operations

Second Quarter and First Half Overview

The following table sets forth, for the periods presented, selected summary information from our Condensed Consolidated Statements of Operations by dollars and percentage of net revenue⁽¹⁾:

	Three Months Ended				\$ Change	% Change
	December 29, 2017		December 30, 2016			
	<i>(in millions, except percentages)</i>					
Revenue, net	\$ 5,336	100.0 %	\$ 4,888	100.0 %	\$ 448	9.2 %
Cost of revenue	3,323	62.3	3,355	68.6	(32)	(1.0)
Gross profit	2,013	37.7	1,533	31.4	480	31.3
Operating Expenses:						
Research and development	629	11.8	585	12.0	44	7.5
Selling, general and administrative	381	7.1	358	7.3	23	6.4
Employee termination, asset impairment, and other charges	48	0.9	45	0.9	3	6.7
Total operating expenses	1,058	19.8	988	20.2	70	7.1
Operating income	955	17.9	545	11.1	410	75.2
Interest and other income (expense):						
Interest income	14	0.3	5	0.1	9	180.0
Interest expense	(197)	(3.7)	(205)	(4.2)	8	(3.9)
Other income (expense), net	2	—	(24)	(0.5)	26	(108.3)
Total interest and other expense, net	(181)	(3.4)	(224)	(4.6)	43	(19.2)
Income before taxes	774	14.5	321	6.6	453	141.1
Income tax expense	1,597	29.9	86	1.8	1,511	1,757.0
Net income (loss)	\$ (823)	(15.4)	\$ 235	4.8	(1,058)	(450.2)

⁽¹⁾ Percentages may not total due to rounding.

	Six Months Ended					
	December 29, 2017		December 30, 2016		\$ Change	% Change
<i>(in millions, except percentages)</i>						
Revenue, net	\$ 10,517	100.0 %	\$ 9,602	100.0 %	\$ 915	9.5 %
Cost of revenue	6,591	62.7	6,734	70.1	(143)	(2.1)
Gross profit	3,926	37.3	2,868	29.9	1,058	36.9
Operating Expenses:						
Research and development	1,221	11.6	1,224	12.7	(3)	(0.2)
Selling, general and administrative	745	7.1	754	7.9	(9)	(1.2)
Employee termination, asset impairment, and other charges	100	1.0	113	1.2	(13)	(11.5)
Total operating expenses	2,066	19.6	2,091	21.8	(25)	(1.2)
Operating income	1,860	17.7	777	8.1	1,083	139.4
Interest and other income (expense):						
Interest income	30	0.3	10	0.1	20	200.0
Interest expense	(402)	(3.8)	(441)	(4.6)	39	(8.8)
Other income (expense), net	(4)	—	(296)	(3.1)	292	(98.6)
Total interest and other expense, net	(376)	(3.6)	(727)	(7.6)	351	(48.3)
Income before taxes	1,484	14.1	50	0.5	1,434	2,868.0
Income tax expense	1,626	15.5	181	1.9	1,445	798.3
Net income (loss)	\$ (142)	(1.4)	\$ (131)	(1.4)	\$ (11)	8.4

(1) Percentages may not total due to rounding.

The following table sets forth, for the periods presented, summary information regarding net revenues by geography and end market:

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
<i>(in millions, except exabytes and percentages)</i>				
Revenue, net	\$ 5,336	\$ 4,888	\$ 10,517	\$ 9,602
Revenues by Geography (%) ⁽¹⁾				
Americas	25%	26%	26%	26%
Europe, Middle East and Africa	19	19	18	18
Asia	56	55	56	56
Revenues by End Market (%) ⁽²⁾				
Client Devices	50%	49%	51%	50%
Data Center Devices & Solutions	27	29	27	29
Client Solutions	24	22	23	21
Exabytes Shipped	95	78	182	158

(1) Percentages for the prior year have been revised to conform to the current year presentation.

(2) Percentages may not total due to rounding.

Net Revenue

Net revenue for the three and six months ended December 29, 2017 increased \$448 million, or 9.2%, and \$915 million, or 9.5%, respectively, as compared to the same periods in prior year. The increase in net revenue for the three and six months ended December 29, 2017, compared to the same periods in the prior year, primarily reflects a favorable flash memory demand environment and growth of our diversified product portfolio. For the three and six months ended December 29, 2017, Client Devices revenue increased 9.5% and 11.1%, respectively, year-over-year, primarily driven by growth in mobility, client solid state drives (“SSD”) and surveillance products. Our revenue for Data Center Devices and Solutions for the three and six months ended December 29, 2017 increased 2.9% and 1.6%, respectively, year-over-year, driven primarily by a significant increase in sales from our capacity enterprise hard disk drives (“HDD”), partially offset by an expected decline in sales from our performance enterprise HDDs. Client Solutions revenue for the three and six months ended December 29, 2017 increased 16.6% and 16.5%, respectively, year-over-year, primarily as a result of the strength and reach of our valuable global retail brands.

Our top 10 customers accounted for 42% and 41% of our net revenue for the three and six months ended December 29, 2017, respectively, and 43% and 42% of our net revenue for the three and six months ended December 30, 2016, respectively. For the three and six months ended December 29, 2017 and December 30, 2016, no single customer accounted for 10% or more of our net revenue.

Changes in the net revenue by geography generally reflect normal fluctuations in market demand and competitive dynamics.

Consistent with standard industry practice, we have sales incentive and marketing programs that provide customers with price protection and other incentives or reimbursements that are recorded as a reduction to gross revenue. For the three and six months ended December 29, 2017, these programs represented 12% and 13% of gross revenues, respectively. For each of the three and six months ended December 30, 2016, these programs represented 13% of gross revenues. The amounts attributed to our sales incentive and marketing programs generally vary according to several factors including industry conditions, list pricing strategies, seasonal demand, competitor actions, channel mix and overall availability of products. Changes in future customer demand and market conditions may require us to adjust our incentive programs as a percentage of gross revenue.

Gross Profit and Gross Margin

Gross profit for the three and six months ended December 29, 2017 increased \$480 million, or 31.3%, and \$1.058 billion, or 36.9%, respectively, as compared to the same period in the prior year. The increase in gross profit for the three and six months ended December 29, 2017 reflects the increase in revenue discussed above and improvements in our gross margin. The increase in gross margin for the three and six months ended December 29, 2017 was primarily due to a favorable demand environment for flash-based products, improvements in our production costs from technology transitions and a higher mix of flash-based product revenue. Gross profit was negatively impacted by amortization expense on acquired intangible assets, stock-based compensation, charges related to the implementation of cost-saving initiatives and other charges, which aggregated \$293 million, or 5.5%, of revenue, for the three months ended December 29, 2017, and \$259 million, or 5.3%, of revenue, for the three months ended December 30, 2016.

Gross profit was negatively impacted by amortization expense on acquired intangible assets, stock-based compensation, charges related to the implementation of cost-saving initiatives and other charges, which aggregated \$572 million, or 5.4%, of revenue, for the six months ended December 29, 2017, and \$523 million, or 5.4%, of revenue, for the six months ended December 30, 2016.

Operating Expenses

The increase in research and development (“R&D”) expense for the three months ended December 29, 2017 of \$44 million, or 7.5%, from the same period in the prior year, was primarily due to on-going investments in future capabilities and operating expenses of recent acquisitions. The three months ended December 29, 2017 also included aggregate charges of \$48 million related to stock-based compensation expenses, charges related to the implementation of cost-saving initiatives, acquisition-related charges and other charges, compared to \$49 million for the three months ended December 30, 2016 related to such charges.

R&D expense for the six months ended December 29, 2017 remained relatively consistent with the same period in the prior year. This was primarily due to an increase in on-going investments in future capabilities and operating expenses of recent acquisitions, offset by variable compensation. The six months ended December 29, 2017 also included aggregate charges of \$95 million related to stock-based compensation expenses, charges related to the implementation of cost-saving initiatives, acquisition-related charges and other charges, compared to \$102 million for the six months ended December 30, 2016 related to such charges.

Selling, general and administrative (“SG&A”) expense for the three months ended December 29, 2017 increased \$23 million, or 6.4%, from the same period in the prior year, primarily due to operating expenses of recent acquisitions and an increase in legal expenses. Both the three months ended December 29, 2017 and December 30, 2016 also included aggregate charges of \$97 million related to stock-based compensation expenses, amortization expense on acquired intangible assets, charges related to the implementation of cost-saving initiatives, acquisition-related charges and other discrete charges.

SG&A expense for the six months ended December 29, 2017 remained relatively consistent from the same period in the prior year. This was primarily due to an increase in operating expenses of recent acquisitions and legal expenses, offset by lower variable compensation. The six months ended December 29, 2017 also included aggregate charges of \$187 million related to stock-based compensation expenses, amortization expense on acquired intangible assets, charges related to the implementation of cost-saving initiatives, acquisition-related charges and other charges, compared to \$216 million for the six months ended December 30, 2016 related to such charges.

Employee termination and other charges for the three and six months ended December 29, 2017 primarily related to further actions associated with the integration and business realignment of substantial portions of our business. For additional information regarding employee termination, asset impairment and other charges, see Part I, Item 1, Note 12, *Employee Termination, Asset Impairment and Other Charges*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Interest and Other Income (Expense)

Total interest and other income (expense), net for the three months ended December 29, 2017 decreased \$43 million from the same period in the prior year, primarily due to higher foreign exchange losses and other charges of \$26 million in the prior year, lower interest expense of \$8 million resulting from reductions in the principal amount of debt and higher interest income of \$9 million related to increased investments.

Total interest and other income (expense), net for the six months ended December 29, 2017 decreased \$351 million from the same period in the prior year, primarily due to the loss on extinguishment of debt of \$292 million recognized in the prior year, lower interest expense of \$39 million resulting from reductions in the principal amount of debt and higher interest income of \$20 million related to increased investments.

Income Tax Expense

The following table sets forth income tax information from our Consolidated Statement of Operations by dollar and effective tax rate.

	Three Months Ended		Six Months Ended	
	December 29, 2017	December 30, 2016	December 29, 2017	December 30, 2016
	<i>(in millions, except percentages)</i>			
Income before taxes	\$ 774	\$ 321	\$ 1,484	\$ 50
Income tax expense	1,597	86	1,626	181
Effective tax rate	206%	27%	110%	362%

Under the 2017 Act, the U.S. federal corporate tax rate is reduced from 35% to 21% and is effective January 1, 2018 resulting in the use of an estimated annual effective rate of approximately 28% for our U.S. federal corporate tax rate for fiscal year 2018. The reduction in the U.S. federal corporate tax rate from 35% to the blended tax rate of 28% for fiscal year 2018 is estimated to have reduced our income tax expense by \$7 million for the three and six months ended December 29, 2017. For fiscal year 2019 and beyond, we will utilize the enacted U.S. federal corporate tax rate of 21%.

Consistent with applicable Securities and Exchange Commission (“SEC”) guidance, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time mandatory deemed repatriation tax required by the 2017 Act and have recognized a provisional income tax expense of \$1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of \$88 million related to the re-measurement of deferred tax assets and liabilities for the three and six months ended December 29, 2017. Both items are included as a component of income tax expense from continuing operations in the Condensed Consolidated Statements of Operations. For other elements of tax expense noted in Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, or where we have not made an election, we have not been able to make a reasonable estimate and continue to account for such items based on the provisions of the tax laws that were in effect immediately prior to the 2017 Act. As we finalize the accounting for the tax effects of the enactment of the 2017 Act during a one-year measurement period permitted by applicable SEC guidance, we expect to reflect adjustments to the recorded provisional amounts and record additional tax effects of the 2017 Act.

The primary drivers for the difference between the effective tax rate for the three and six months ended December 29, 2017 and the U.S. Federal statutory rate of 28% are related to the net charge of \$1.66 billion for the one-time mandatory deemed repatriation tax, offset in part by an income tax benefit related to the re-measurement of deferred taxes as required by the 2017 Act. Excluding these items, the effective tax rate for the three and six months ended December 29, 2017 would be approximately 4%. The primary drivers for the remaining difference between the effective tax rate for the three and six months ended December 29, 2017 and the U.S. Federal statutory rate of 28% are the current year generation of tax credits, and tax holidays in Malaysia, Philippines, Singapore and Thailand that expire at various dates during fiscal years 2018 through 2030 and windfall tax benefits related to vesting and exercises of stock-based awards. The windfall tax benefits are a result of the adoption of ASU 2016-09, which requires us to now recognize \$5 million and \$27 million of windfall tax benefits related to vesting and exercises of stock-based awards as a component of our income tax expense for the three and six months ended December 29, 2017, respectively. The windfall tax benefits for the three and six months ended December 30, 2016 were recorded within stockholders’ equity.

Income tax expense for the six months ended December 30, 2016 was attributable to discrete effects consisting of income tax expense from the integration of SanDisk Corporation (“SanDisk”) of \$90 million and a valuation allowance on acquired tax attributes of \$109 million, partially offset by income tax benefit from deductible debt issuance costs, debt discounts and prepayment fees from the debt extinguishment of \$96 million. The primary drivers for the difference between the effective tax rate for the six months ended December 30, 2016 and the U.S. Federal statutory rate of 35% are these discrete items, the current year generation of tax credits and tax holidays in Malaysia, Philippines, Singapore and Thailand that expire at various dates during fiscal years 2018 through 2030.

The 2017 Act is expected to have an unfavorable impact on our effective tax rate for fiscal year 2018 due to the mandatory deemed repatriation tax offset in part by the re-measurement of deferred taxes and the reduction in the corporate tax rate. In future years, certain additional provisions of the 2017 Act, such as a minimum tax on foreign earnings, will also apply to us and, as a result, we generally expect our effective tax rate to increase from the rate expected for fiscal year 2018 (excluding the mandatory deemed repatriation tax and the re-measurement of deferred taxes). Our estimate of the effective tax rate increase is subject to our assertion as to whether foreign undistributed earnings are indefinitely reinvested and to other calculations and elections during the measurement period. Our total tax expense in future fiscal years will also vary as a result of discrete items such as excess tax benefits or deficiencies.

For additional information regarding income tax expense (benefit), see Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

The following table summarizes our statements of cash flows:

	Six Months Ended	
	December 29, 2017	December 30, 2016
	(in millions)	
Net cash provided by (used in):		
Operating activities	\$ 2,315	\$ 1,500
Investing activities	(1,007)	(316)
Financing activities	(1,391)	(4,386)
Effect of exchange rate changes on cash	1	(9)
Net decrease in cash and cash equivalents	<u>\$ (82)</u>	<u>\$ (3,211)</u>

We believe our cash, cash equivalents and cash generated from operations as well as our available credit facilities will be sufficient to meet our working capital, debt, stock repurchases, dividend and capital expenditure needs for at least the next twelve months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A, *Risk Factors*, in this Quarterly Report on Form 10-Q.

During 2018, we expect cash used for purchases of property, plant and equipment and net activity in notes receivable and equity investments relating to Flash Ventures to be approximately \$1.50 billion to \$1.90 billion. The total expected cash to be used could vary depending on the timing and completion of various capital projects and the availability, timing and terms of related financing. As described above, we also expect that if the Refinancing Transactions and share repurchase are completed, our total debt outstanding will decrease by approximately \$1.00 billion and our available cash on hand will decrease by approximately \$2.40 billion compared to December 29, 2017. See above in “Key Developments - Refinancing Transactions” for additional information

Pursuant to the 2017 Act, we are required to pay a one-time deemed repatriation tax related to the undistributed earnings of our foreign subsidiaries. For the three and six months ended December 29, 2017, we recorded a provisional amount for the mandatory deemed repatriation tax liability of \$1.66 billion, which is payable over an 8-year period as further discussed below under “Short and Long-term Liquidity-Contractual Obligations and Commitments.” The provisional amount included in the Condensed Consolidated Financial Statements of Operations may change when we finalize the calculation of our post-1986 foreign earnings and profits that were previously deferred from U.S. income taxes and the amount of foreign earnings held in cash or other specified assets. For additional information regarding our total tax liability for the mandatory repatriation tax, see Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

A total of \$4.90 billion and \$4.99 billion of our cash and cash equivalents was held outside of the U.S. as of December 29, 2017 and June 30, 2017, respectively. Although the mandatory deemed repatriation tax has removed U.S. federal taxes on distributions to the U.S., we continue to evaluate the expected manner of recovery to determine whether or not to assert indefinite reinvestment on a part or all the foreign undistributed earnings. This requires us to re-evaluate the existing short and long-term capital allocation policies in light of the 2017 Act and calculate the tax cost, that is incremental to the U.S. deemed repatriation tax, (e.g. foreign withholding, state income taxes, and additional U.S. tax on currency transaction gains or losses) of repatriating cash to the U.S. While the current tax expense is based upon an assumption that foreign undistributed earnings are indefinitely reinvested, our plan may change upon the completion of long-term capital allocation plans in light of the 2017 Act and completion of the calculation of the incremental tax effects on the repatriation of foreign undistributed earnings. In the event we determine not to continue to assert the permanent reinvestment of part or all of our foreign undistributed earnings such a determination could result in the accrual and payment of additional foreign, state and local taxes.

Operating Activities

Cash flow from operating activities primarily consists of net income, adjusted for non-cash charges, plus or minus changes in other operating assets and liabilities. This represents our principal source of cash. Net cash provided by changes in other operating assets and liabilities was \$1.27 billion for the six months ended December 29, 2017, as compared to net cash used for changes in other operating assets and liabilities of \$37 million for the six months ended December 30, 2016.

Changes in our other operating assets and liabilities is largely affected by our working capital requirements which is dependent on the effective management of our cash conversion cycle. Our cash conversion cycle measures how quickly we can convert our products into cash through sales. The cash conversion cycles were as follows:

	<u>December 29, 2017</u>	<u>December 30, 2016</u>
	<i>(in days)</i>	
Days sales outstanding	35	38
Days in inventory	62	56
Days payables outstanding	(59)	(59)
Cash conversion cycle	<u>38</u>	<u>35</u>

Changes in days sales outstanding (“DSOs”) are generally due to the linearity of shipments. Changes in days in inventory (“DIOs”) are generally related to the timing of inventory builds. Changes in days payables outstanding (“DPOs”) are generally related to production volume and the timing of purchases during the period. From time to time, we modify the timing of payments to our vendors. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances. Generally, we make the payment term modifications through negotiations with our vendors or by granting to, or receiving from, our vendors’ payment term accommodations.

For the six months ended December 29, 2017, DSO decreased by 3 days over the prior year, primarily reflecting routine variations in the timing of customer receipts. DIO increased by 6 days over the prior year, primarily reflecting short-term build-up of inventory to support expected demand. DPO primarily reflects routine variations in timing of purchases and payments and remained consistent over the prior year.

Investing Activities

Net cash used in investing activities for the six months ended December 29, 2017 primarily consisted of \$416 million of capital expenditures, a net \$509 million increase in notes receivable issuances to Flash Ventures, and \$99 million for acquisitions. Net cash used in investing activities for the six months ended December 30, 2016 primarily consisted of \$330 million of capital expenditures and a \$70 million net increase in notes receivable issuances to and investments in Flash Ventures.

Our cash equivalents are primarily invested in money market funds that invest in U.S. Treasury securities and U.S. Government agency securities as well as bank certificates of deposit. In addition, we invest directly in U.S. Treasury securities, U.S. and International Government agency securities, certificates of deposit, asset-backed securities and corporate and municipal notes and bonds.

Financing Activities

Net cash used in financing activities for the six months ended December 29, 2017 primarily consisted of \$4.11 billion in debt repayments and \$295 million to pay dividends on our common stock, partially offset by proceeds of \$2.96 billion from debt issuances, a net \$32 million in employee stock plans, and \$28 million from the settlement of debt hedge contracts. Net cash used in financing activities for the six months ended December 30, 2016 consisted of \$8.25 billion to repay debt, and \$284 million to pay dividends on our common stock, partially offset by \$3.99 billion of proceeds from debt, net of issuance costs, \$61 million of proceeds from call options, and a net \$106 million provided by employee stock plans.

Off-Balance Sheet Arrangements

Other than the commitments related to Flash Ventures, facility lease commitments incurred in the normal course of business and certain indemnification provisions (see “Contractual Obligations and Commitments” below), we do not have any other material off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any other obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not included in the Condensed Consolidated Financial Statements. Additionally, we do not have an interest in, or relationships with, any special-purpose entities. For additional information regarding our off-balance sheet arrangements, see Part I, Item 1, Note 8, *Commitments, Contingencies and Related Parties*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Short and Long-term Liquidity*Contractual Obligations and Commitments*

The following is a summary of our known contractual cash obligations and commercial commitments as of December 29, 2017:

	Total	1 Year (Remaining 6 months of 2018)	2-3 Years (2019- 2020)	4-5 Years (2021- 2022)	More than 5 Years (Beyond 2022)
	<i>(in millions)</i>				
Long-term debt, including current portion	\$ 12,237	\$ 118	\$ 816	\$ 3,256	\$ 8,047
Interest on debt	3,879	365	1,441	1,268	805
Flash Ventures and other related commitments ⁽¹⁾	7,698	1,755	3,796	1,766	381
Operating leases	158	23	77	39	19
Purchase obligations	1,184	1,161	23	—	
Mandatory Repatriation Tax	1,657	—	265	265	1,127
Total	\$ 26,813	\$ 3,422	\$ 6,418	\$ 6,594	\$ 10,379

⁽¹⁾ Includes reimbursement for depreciation and lease payments on owned and committed equipment, funding commitments for loans and equity investments and reimbursement for other committed expenses, including R&D. Funding commitments assume no additional operating lease guarantees. Additional operating lease guarantees can reduce funding commitments.

Debt

See Part I, Item 1, Note 6, *Debt*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding our indebtedness, including information about new borrowings and repayments, increased availability under our revolving credit facility and the principal repayment terms, interest rates, covenants and other key terms of our outstanding indebtedness.

Interest Rate Swap

We have entered into interest rate swap agreements to moderate our exposure to fluctuations in interest rates underlying our variable rate debt. For a description of our current interest rate swaps, see Part I, Item 3, *Quantitative and Qualitative Disclosures About Market Risk* and Part I, Item 1, Note 5, *Derivative Instruments and Hedging Activities*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Flash Ventures

Flash Ventures sells and leases back from a consortium of financial institutions a portion of its tools and has entered into equipment lease agreements of which we guarantee half of the total outstanding obligations. The lease agreements contain customary covenants for Japanese lease facilities. In addition to containing customary events of default related to Flash Ventures that could result in an acceleration of Flash Ventures' obligations, the lease agreements contain acceleration clauses for certain events of default related to the guarantors, including us. As of December 29, 2017, we were in compliance with all covenants under these Japanese lease facilities. See Part I, Item 1, Note 8, *Commitments, Contingencies and Related Parties*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding Flash Ventures.

Foreign Exchange Contracts

We purchase foreign exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. For a description of our current foreign exchange contract commitments, see Part I, Item 3, *Quantitative and Qualitative Disclosures About Market Risk* and Part I, Item 1, Note 5, *Derivative Instruments and Hedging Activities*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Indemnifications

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

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

Mandatory Repatriation Tax

The following is a summary of our estimated provisional mandatory deemed repatriation tax obligations which are payable in the following fiscal years ending (in millions):

June 28, 2019	\$	132
July 3, 2020		133
July 2, 2021		132
July 1, 2022		133
June 30, 2023		132
June 28, 2024		249
June 27, 2025		332
July 3, 2026		414
Total	\$	1,657

The 2017 Act allows for the provisional mandatory deemed repatriation tax of \$1.66 billion to be payable over an 8-year period without interest. The payments are due with 8% of the tax to be paid in each of the first five years, 15% in the 6th year, 20% in the 7th year, and 25% in the 8th year. For additional information regarding our provisional estimate of the total tax liability for the mandatory repatriation tax, see Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Unrecognized Tax Benefits

As of December 29, 2017, the liability for unrecognized tax benefits (excluding accrued interest and penalties) was approximately \$529 million. Accrued interest and penalties related to unrecognized tax benefits as of December 29, 2017 was approximately \$94 million. Of these amounts, approximately \$502 million could result in potential cash payments. We are not able to provide a reasonable estimate of the timing of future tax payments related to these obligations. For additional information regarding our total tax liability for unrecognized tax benefits, see Part I, Item 1, Note 10, *Income Tax Expense*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Cash Dividend

Since the first quarter of 2013, we have issued a quarterly cash dividend. On November 1, 2017, we declared a cash dividend of \$0.50 per share of our common stock to our shareholders of record as of December 29, 2017. The cash dividend of \$149 million was paid on January 16, 2018.

On January 27, 2018, we declared a cash dividend of \$0.50 per share of our common stock to our shareholders of record as of March 30, 2018, which will be paid on April 16, 2018. We may modify, suspend, or cancel our cash dividend policy in any manner and at any time.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). ASU 2017-12 simplifies hedge accounting through changes to both designation and measurement requirements. For hedges that qualify as highly effective, the new standard eliminates the requirement to separately measure and record hedge ineffectiveness, resulting in better alignment between the presentation of the effects of the hedging instrument and the hedged item in the financial statements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the update. We are currently evaluating the impact this update will have on our Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 provides clarification when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. This ASU is effective prospectively for annual periods beginning after December 15, 2017, which for us is the first quarter of 2019. Early adoption is permitted within the first interim period. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The new standard is effective for fiscal years beginning after December 15, 2017, which for us is the first quarter of 2019. Early adoption is permitted within the first interim period. We are currently evaluating the impact ASU 2017-07 will have on our Consolidated Financial Statements.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 clarifies the scope and application of Accounting Standards Codification ("ASC") 610-20 on the sale or transfer of nonfinancial assets, including real estate, and in substance nonfinancial assets to noncustomers, including partial sales. An entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of the related asset. The ASU also clarifies that an in substance nonfinancial asset is an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. In addition, the amendment requires an entity to derecognize a distinct nonfinancial asset or in substance nonfinancial asset in a partial sale transaction when the entity does not retain a controlling financial interest in the legal entity that holds the asset and an entity transfers control of the asset. Once control is transferred, any non-controlling interest received is required to be measured at fair value. The effective date of the new standard is aligned with the requirements in the new revenue standard ASU No. 2014-09, which for us is the first quarter of 2019. The Company is in the process of evaluating the impact that adoption of this guidance may have on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the test for goodwill impairment by removing Step 2 from the goodwill impairment test. Companies will now perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value not to exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new standard is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, which for us is the first quarter of 2021. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 narrows the definition of a “business”. This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard is effective for fiscal years beginning after December 15, 2017, which for us is the first quarter of 2019. The new standard must be applied prospectively to transactions occurring within the period of adoption. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”). ASU 2016-16 removes the prohibition in the FASB Accounting Standards Codification (“ASC”) Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The new standard is intended to reduce the complexity of accounting principles generally accepted in the United States (“U.S. GAAP”) and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving IP. The new standard is effective for fiscal years beginning after December 15, 2017, which for us is the first quarter of 2019. Early adoption is permitted. We are currently evaluating the impact ASU 2016-16 will have on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables, and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require an entity to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, which for us is the first quarter of 2021. We are currently evaluating the impact this update will have on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). ASU 2016-02 supersedes ASC 840 “Leases”. The amendments in this update require, among other things, that lessees recognize the following for all leases (unless a policy election is made by class of underlying asset to exclude short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Currently, lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, the FASB issued a proposal pending resolution that would allow entities to apply the provisions of ASC 842 at the effective date without adjusting comparative periods. The amendments are effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are also in the process of identifying changes to our processes, internal controls and systems configurations that would result from the new lease standard. Our implementation efforts are progressing as planned. We expect to adopt this standard in the first quarter of 2020. We continue to evaluate the impact ASU 2016-02 will have on our Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 provides guidance related to accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, which for us is the first quarter of 2019. Early adoption is not permitted. We are currently evaluating the impact ASU 2016-01 will have on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC Topic 606”), which amends the guidance in former ASC Topic 605, “Revenue Recognition”, to provide a single, comprehensive revenue recognition model for all contracts with customers. ASC Topic 606 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. The new standard also requires entities to enhance disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective beginning the first quarter of fiscal 2019, with early adoption permitted. The standard may be applied retrospectively to all prior periods presented (“full retrospective method”), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (“modified retrospective method”). Based on our preliminary plan, we intend to adopt the new standard beginning with the first quarter of 2019 using the modified retrospective method; however, we continue to assess this in connection with our entire project plan.

We expect the implementation of the new standard to impact the recognition of our revenue as follows:

- Substantially all of our current revenue is from the sale of hardware products. We do not expect any material changes to the timing or amount of revenue for these types of sales under the new standard.
- For sales-based royalties, we will need to estimate and recognize revenue in the period the royalty-bearing sales occur as opposed to the existing treatment of recognizing revenue in the period the royalty report is received. This change will result in the acceleration of revenue recognition by one fiscal quarter as well as fluctuations between the estimated and actual reported sales-based royalties which we do not expect to be material.
- For software and IP licenses, we are still assessing the impact and timing to revenue from the implementation of the new standard. However, we do not currently expect the new standard to have a material impact on our revenue for these types of arrangements.
- Our revenue disclosures are expected to expand and may require judgment in certain areas.

As we are completing our assessment, we are also identifying and preparing to implement changes to our processes, internal controls and systems configurations from the implementation of the new revenue standard. We do not currently expect any significant changes to our other accounting policies from the adoption of the new revenue standard. Our implementation efforts are progressing as planned.

For a description of recently adopted accounting pronouncements, including the respective dates of adoption and effects on our results of operations and financial condition, see Part I, Item 1, Note 2, *Recently Adopted Accounting Pronouncements*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with U.S. GAAP. The preparation of the financial statements requires the use of judgments and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and shareholders' equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. If these estimates differ significantly from actual results, the impact to the Condensed Consolidated Financial Statements may be material.

There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for our fiscal year ended June 30, 2017. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 for a discussion of our critical accounting policies and estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Disclosure About Foreign Currency Risk

Although the majority of our transactions are in U.S. dollars, some transactions are based in various foreign currencies. We purchase short-term, foreign exchange contracts to hedge the impact of foreign currency exchange fluctuations on certain underlying assets, liabilities and commitments for product costs and operating expenses denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on our results of operations. The contract maturity dates do not exceed 12 months. We do not purchase foreign exchange contracts for speculative or trading purposes. For additional information, see Part I, Item 1, Note 4, *Fair Value Measurements and Investments* and Note 5, *Derivative Instruments and Hedging Activities* of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

As of December 29, 2017, we had outstanding the foreign exchange contracts presented in the following table. The designated foreign exchange contracts are entered to protect the U.S. dollar value of our product cost and operating expenses. Changes in fair values of the non-designated foreign exchange contracts would be largely offset in other income (expense) by corresponding changes in the fair values of the foreign currency denominated monetary assets and liabilities.

Designated Hedges (cash flow hedges)	Contract Amount	Weighted-Average Contract Rate ⁽¹⁾	Mark to Market Unrealized Gain (Loss)
	<i>(in millions, except weighted-average contract rate)</i>		
Japanese yen	\$ 426	111.39	\$ (2)
Malaysian ringgit	96	4.17	3
Philippine peso	41	51.18	1
Singapore dollar	2	1.41	—
Thai baht	125	32.77	1
Total designated forward contracts	<u>\$ 690</u>		<u>\$ 3</u>
Non-Designated Hedges	Contract Amount	Weighted-Average Contract Rate ⁽¹⁾	Unrealized Gain (Loss)
	<i>(in millions, except weighted-average contract rate)</i>		
British pound sterling	\$ 43	0.74	\$ —
Euro	88	0.84	—
Japanese yen	1,273	112.11	—
Malaysian ringgit	78	4.13	2
Philippine peso	79	50.19	—
Singapore dollar	43	1.34	—
Thai baht	280	32.63	—
Total non-designated forward contracts	<u>\$ 1,884</u>		<u>\$ 2</u>

⁽¹⁾ Expressed in units of foreign currency per U.S. dollar.

During the three and six months ended December 29, 2017 and December 30, 2016, total net realized transaction and foreign exchange contract currency gains and losses were not material to our Condensed Consolidated Financial Statements.

Notwithstanding our efforts to mitigate some foreign exchange risks, we do not hedge all of our foreign currency exposures, and there can be no assurance that our mitigating activities related to the exposures that we hedge will adequately protect us against risks associated with foreign currency fluctuations.

Disclosure About Other Market Risks

Variable Interest Rate Risk

Borrowings under our Term Loan A and our revolving credit facility bear interest at a rate per annum, at our option, of either an adjusted London Interbank Offered Rate (“LIBOR”) (subject to a 0.0% floor) plus an applicable margin of 1.75% or at a base rate plus an applicable margin of 0.75% (3.32% as of December 29, 2017). The applicable margin for the borrowings under our Term Loan A and our revolving credit facility will range, depending on our leverage, from 1.50% to 2.25% for LIBOR loans and from 0.50% to 1.25% for base rate loans.

Borrowings under the U.S. Term Loan B-3 tranche bear interest at a rate per annum, at our option, of an adjusted LIBOR, subject to a 0.00% floor, plus 2.00% or a base rate plus 1.00% (3.57% as of December 29, 2017).

We have generally held a balance of fixed and variable rate debt. At December 29, 2017, 57% of the par value of our debt was at variable rates. To balance the portfolio, we entered into a pay-fixed interest rate swap on \$1.00 billion notional amount, which effectively converts a portion of our term loan to fixed rates through May 2020. As of December 29, 2017, we had \$6.98 billion of variable rate debt. After giving effect to the \$1.00 billion of interest rate swaps, we effectively had \$5.98 billion of long-term debt subject to variations in interest rates and a one percent increase in the variable rate of interest, subject to each loan’s specific floor, would increase annual interest expense by \$60 million.

For additional information regarding our term loans and our interest rate swaps, see Part I, Item 1, Note 6, *Debt*, of the Notes to the Condensed Consolidated Financial Statements included in this quarterly report on Form 10-Q and Part II, Item 8, Note 6, *Debt*, to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) promulgated by the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We are implementing an enterprise resource planning (“ERP”) system on a worldwide basis, which is expected to improve the efficiency of certain financial and related transaction processes. The gradual implementation is expected to occur in phases over the next several years. We have completed the implementation of certain processes, including the consolidation process, and have revised and updated the related controls. These changes did not materially affect our internal control over financial reporting. As we implement the remaining functionality under this ERP system over the next several years, we will continue to assess the impact on our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our legal proceedings, see Part I, Item 1, Note 13, *Legal Proceedings*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated by reference in response to this item.

Item 1A. *Risk Factors*

Our business, financial condition and operating results can be affected by a number of risks and uncertainties, whether currently known or unknown, any one or more of which could, directly or indirectly, cause our actual results of operations and financial condition to vary materially from past, or from anticipated future, results of operations and financial condition. The risks and uncertainties discussed below are not the only ones facing our business, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition, results of operations or the market price of our common stock.

The risks and uncertainties discussed below update and supersede the risks and uncertainties previously disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2017. Other than the changes to the risk factors below titled, “*We rely substantially on our business ventures with Toshiba’s wholly owned subsidiary, Toshiba Memory Corporation (“TMC”), for the supply of NAND-flash memory and the development of NAND-flash technology, which subjects us to risks and uncertainties that could harm our business, financial condition and operating results,*” “*If we are unable to successfully integrate the systems and operations of HGST, our business and financial condition may be adversely affected,*” and “*Changes in tax laws could increase our worldwide tax rate and materially affect our financial position and results of operations,*” we do not believe any of the changes constitute material changes to the risk factors previously disclosed in such prior Quarterly Report on Form 10-Q.

Adverse global economic conditions and credit market uncertainty could harm our business, results of operations and financial condition.

Adverse global economic conditions and uncertain conditions in the credit market have had, and in the future could have, a significant adverse effect on our company and on the storage industry as a whole. Several factors contribute to these conditions and this uncertainty, including, but not limited to, volatility in the equity, credit and other financial markets and real estate markets, slower growth in certain geographic regions, lower levels of consumer liquidity, risk of default on sovereign debt, higher interest rates, materials and component cost increases, political uncertainty and other macroeconomic factors, such as the June 2016 referendum by British voters to exit the European Union, commonly referred to as “Brexit,” and changes to policies, rules and regulations which may be proposed or implemented by the U.S. President and his administration. Some of the risks and uncertainties we face as a result of these conditions include the following:

- **Volatile Demand and Supplier Risk.** Our direct and indirect customers may delay or reduce their purchases of our products and systems containing our products. In addition, many of our customers rely on credit financing to purchase our products. If negative conditions in the global credit markets prevent our customers’ access to credit, product orders may decrease, which could result in lower revenue. Likewise, if our suppliers, sub-suppliers and sub-contractors (collectively referred to as “suppliers”), or partners face challenges in obtaining credit, in selling their products or otherwise in operating their businesses, they may be unable to offer the materials we use to manufacture our products. These actions could result in reductions in our revenue and increased operating costs, which could adversely affect our business, results of operations and financial condition.
- **Restructuring Activities.** If demand for our products slows as a result of a deterioration in economic conditions, we may undertake restructuring activities to realign our cost structure with softening demand. The occurrence of restructuring activities could result in impairment charges and other expenses, which could adversely impact our results of operations and financial condition.

- **Credit Volatility and Loss of Receivables.** We extend credit and payment terms to some of our customers. In addition to ongoing credit evaluations of our customers' financial condition, we seek to mitigate our credit risk from time to time by purchasing credit insurance on certain of our accounts receivable balances. As a result of the continued uncertainty and volatility in global economic conditions, however, we may find it increasingly difficult to be able to insure these accounts receivable. We could suffer significant losses if a customer whose accounts receivable we have not insured, or have underinsured, fails to pay us on their accounts receivable balances. Additionally, negative or uncertain global economic conditions increase the risk that if a customer we have insured fails to pay us on their accounts receivable, the financial condition of the insurance carrier for such customer account may have also deteriorated such that it cannot cover our loss. A significant loss of accounts receivable that we cannot recover through credit insurance would have a negative impact on our financial condition.
- **Impairment Charges.** We test goodwill for impairment annually as of the first day of our fourth quarter and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. Negative or uncertain global economic conditions could result in circumstances, such as a sustained decline in our stock price and market capitalization or a decrease in our forecasted cash flows, indicating that the carrying value of our long-lived assets or goodwill may be impaired. If we are required to record a significant charge to earnings in our Consolidated Financial Statements because of an impairment of our long-lived assets or goodwill, our results of operations will be adversely affected.

We rely substantially on our business ventures with Toshiba's wholly owned subsidiary, Toshiba Memory Corporation ("TMC"), for the supply of NAND-flash memory and the development of NAND-flash technology, which subjects us to risks and uncertainties that could harm our business, financial condition and operating results.

We are dependent on our ventures with Toshiba's wholly owned subsidiary, TMC, to develop and manufacture NAND-flash memory products for our NAND-flash memory supply, and therefore our business, financial condition and operating results, and our ability to realize the anticipated benefits from our acquisition of SanDisk Corporation ("SanDisk") in May 2016, pursuant to an Agreement and Plan of Merger (the "Merger"), is dependent on the continued success of Flash Ventures.

The majority of our NAND-flash memory is supplied by Flash Ventures, which limits our ability to respond to market demand and supply changes. A failure to accurately forecast demand could cause us to over-invest or under-invest in technology transitions or the expansion of captive memory capacity in Flash Ventures. Over-investment could result in excess supply, which could cause significant decreases in our product prices, significant excess, obsolete or lower of cost or net realizable value inventory write-downs or under-utilization charges, and the potential impairment of our investments in Flash Ventures. On the other hand, if we or TMC under-invest in captive memory capacity or technology transitions, if we grow capacity more slowly than the rest of the industry, if our technology transitions do not occur on the timeline that we expect, if we encounter unanticipated difficulties in implementing these transitions, or if we implement technology transitions more slowly than our competitors, we may not have enough captive supply of the right type of memory or at all to meet demand on a timely and cost effective basis and we may lose opportunities for revenue, gross margin and share as a result. If our NAND memory supply is limited, we may make strategic decisions with respect to the allocation of our supply among our products and customers, and these strategic allocation decisions may result in less favorable gross margin in the short term or damage certain customer relationships. Growth of our NAND-flash memory bit supply at a slower rate than the overall industry for an extended period of time would result in lowering our share which could limit our future opportunities and harm our financial results. We are also contractually obligated to pay for 50% of the fixed costs of Flash Ventures regardless of whether we purchase any wafers from Flash Ventures. Furthermore, purchase orders placed with Flash Ventures and under the foundry arrangements with TMC for up to three months are binding and cannot be canceled. Therefore, once our purchase decisions have been made, our production costs for flash memory are fixed, and we may be unable to reduce costs to match any subsequent declines in pricing or demand, which would harm our gross margin. Our limited ability to react to fluctuations in flash memory supply and demand makes our financial results particularly susceptible to variations from our forecasts and expectations.

In addition, we partner with TMC on the development of NAND-flash technology, including the next technology transitions of NAND-flash, as well as other non-volatile memory technology in support of Flash Ventures.

These ventures are subject to various risks that could harm the value of our investments, our revenue and costs, our future rate of spending, our technology plans and our future growth opportunities. Under the terms of our venture agreements with TMC, which govern the operations of Flash Ventures, we have limited power to unilaterally direct most of the activities that most significantly impact Flash Ventures' performance and we have limits to our ability to source or fabricate NAND-flash products outside of the Flash Ventures. The integration of SanDisk into our organization could complicate the process of reaching agreement with TMC in a timely and favorable manner. We may not always agree with TMC on our joint R&D roadmap or expansions or conversions of production capacity. In addition, Toshiba's financial position or TMC's shift in strategic priorities could adversely impact our business.

In March 2017, Toshiba announced significant losses related to its U.S. nuclear business and, in connection with its fiscal year 2016 financial statements, Toshiba advised that there were material events and conditions that raise substantial doubt about its ability to continue as a going concern. Subsequently, in September 2017, Toshiba announced it had entered into a definitive agreement to sell TMC, including its interests in Flash Ventures, to a consortium led by SK Hynix Inc. and Bain Capital (the "Bain Consortium") that includes other competitors, as well as key customers. We previously asserted our consent rights under the terms of the Flash Ventures agreements with respect to the transactions involving, among other things, the transfer by Toshiba of its interests in Flash Ventures to TMC and the proposed sale of TMC to the Bain Consortium. In December 2017, in connection with a global settlement agreement with Toshiba and TMC, we consented to the transfer of Toshiba's interests in Flash Ventures to TMC and the sale of TMC to the Bain Consortium. If the Bain Consortium or another third party acquires any of Toshiba's interests in Flash Ventures, it could lead to delays in decision-making, disputes, or changes in strategic direction that could adversely impact Flash Ventures and/or adversely affect our business prospects, results of operations and financial condition. The purchaser might not have the same interest that we do in protecting and growing Flash Ventures' business and might have conflicts of interest between itself and Flash Ventures or us. To the extent Toshiba retains its interests in TMC, a failure by Toshiba to stabilize its financial condition could cause TMC to become unable to, or otherwise fail to, timely fund investments in Flash Ventures or our joint development efforts or fulfill its payment obligations to suppliers, which could harm Flash Ventures' operations, our joint technology roadmap and supplier relationships. Reduced investment in manufacturing capacity or research and development, or other misalignment between us and Toshiba, TMC or a third party acquirer of TMC on strategic direction, could impact Flash Ventures' ability to stay at the forefront of technological advancement and/or our investment in Flash Ventures. Flash Ventures' competitiveness and/or our investment in Flash Ventures could also be harmed by a mishandling or misuse of IP or other competitively sensitive confidential information regarding Flash Ventures, such as its technology roadmap, business or investment plans, by a third party that might gain access to such information.

Flash Ventures requires significant investments by both TMC and us for technology transitions, including the transition to 3D NAND, and capacity expansions. Lease financings guaranteed by or on behalf of both TMC and us are not currently available to Flash Ventures on favorable terms and we are pursuing alternative forms of financing to fund our share of investments, which might not continue to be accessible. To the extent that lease financings for Flash Ventures are not available on favorable terms or at all, more cash would be required to fund investments. If TMC does not or we do not provide sufficient resources, or have adequate access to credit, to timely fund investments in Flash Ventures, our investments could be delayed or reduced.

As announced by Toshiba, TMC plans to construct a new wafer fabrication facility in Iwate, Japan to provide additional cleanroom space for the manufacture of 3D NAND, with site preparation scheduled to begin in February 2018. Although we intend to enter into agreements with TMC in due course to participate in the new Iwate facility, there is no certainty as to when, and on what terms, we will do so. If we are unable to extend our partnership with TMC to the Iwate facility on favorable terms, our future supply of captive NAND-flash memory could be adversely impacted, which could adversely affect our long-term business and financial results.

We are monitoring and evaluating other potential impacts of Toshiba's planned sale of TMC and financial condition on Flash Ventures and, in turn, on our own memory business and financial condition. These factors could adversely affect the value of our investments in Flash Ventures and our business prospects, results of operations and financial condition.

Integrating SanDisk's operations with ours may be more difficult, costly or time consuming than expected and the anticipated benefits, synergies and cost savings of the Merger may not be realized.

The success of our acquisition of SanDisk, including anticipated benefits, synergies and cost savings, will depend, in part, on our ability to successfully combine and integrate the businesses and culture of SanDisk into our company. It is possible that the integration process will take longer than anticipated. In addition, the integration process could result in the loss of key employees, higher than expected costs, ongoing diversion of management attention, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, vendors, partners and employees. If we experience difficulties with the integration process, the anticipated benefits of the Merger may not be realized fully or at all, or may take longer to realize than expected. In addition, the actual cost savings of the Merger could be less than anticipated. Additionally, the integration of SanDisk's operations into our operations may also increase the risk that our internal controls are found to be ineffective.

Achieving the benefits of the Merger will depend, in part, on our ability to integrate the business and operations of SanDisk successfully and efficiently with our business. The challenges involved in this integration, which will be complex and time-consuming, include, but are not limited to, the following:

- difficulties entering new markets or manufacturing in new geographies where we have no or limited direct prior experience;
- successfully managing relationships with our strategic partners and our combined supplier and customer base;
- coordinating and integrating independent R&D and engineering teams across technologies and product platforms to enhance product development while reducing costs;
- increased levels of investment in R&D, manufacturing capability and technology enhancement relating to SanDisk's business;
- successfully transitioning to 3D NAND and future technologies;
- coordinating sales and marketing efforts to effectively position the combined company's capabilities and the direction of product development;
- difficulties in integrating the systems and processes of two companies with complex operations and multiple manufacturing sites;
- the increased scale and complexity of our operations resulting from the Merger;
- retaining key employees;
- obligations that we have to counterparties of SanDisk that arose as a result of the change in control of SanDisk; and
- the diversion of management attention from other important business objectives.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business of the size and complexity of SanDisk, then we may not achieve the anticipated benefits of the Merger and our revenue, expenses, operating results and financial condition could be materially adversely affected.

Our high level of debt may have an adverse impact on our liquidity, restrict our current and future operations, particularly our ability to respond to business opportunities, and increase our vulnerability to adverse economic and industry conditions.

As of December 29, 2017, our total indebtedness was \$12.24 billion in aggregate principal, and we had \$1.5 billion of additional borrowing availability under our revolving credit facility. On January 29, 2018, we announced the Refinancing Transactions, which remain subject to market and other conditions. After giving effect to the Refinancing Transactions, as of December 29, 2017 our total indebtedness would have been \$11.3 billion in aggregate principal and we would have had \$1.5 billion of additional borrowing availability under our revolving credit facility.

Our high level of debt could have significant consequences, which include, but are not limited to, the following:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions, R&D and other general corporate purposes;
- imposing financial and other restrictive covenants on our operations, including limiting our ability to (i) declare or pay dividends or purchase our common stock; (ii) purchase assets, make investments, complete acquisitions, consolidate or merge with or into, or sell all or substantially all of our assets to, another person; (iii) dispose of assets; (iv) incur liens; and (v) enter into transactions with affiliates;
- placing us at a competitive disadvantage to competitors carrying less debt; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures or take advantage of new opportunities to grow our business.

Our ability to meet the debt service obligations contained in our debt agreements will depend on our available cash and our future performance, which will be affected by financial, business, economic and other factors, including potential changes in laws or regulations, industry conditions, industry supply and demand balance, customer preferences, the success of our products and pressure from competitors. If we are unable to meet our debt service obligations or should we fail to comply with our financial and other restrictive covenants contained in the agreements governing our indebtedness, causing an event of default under the applicable indebtedness, the debt holders could accelerate the related debt and that may result in the acceleration of any other debt, leases or other obligations to which a cross acceleration or cross-default provision applies. If we are required to repay our indebtedness before the due dates, we may not have sufficient funds available to repay such indebtedness and we may be required to refinance all or part of our debt, sell important strategic assets at unfavorable prices, incur additional indebtedness or issue common stock or other equity securities. We may not be able to, at any given time, refinance our debt, sell assets, incur additional indebtedness or issue equity securities on terms acceptable to us, in amounts sufficient to meet our needs or at all. Our inability to service our debt obligations or refinance our debt could have a material adverse effect on our business, operating results and financial condition. Further, if we are unable to repay, refinance or restructure our secured indebtedness, the holder of such debt could proceed against the collateral securing that indebtedness. Refinancing our indebtedness, including through the Refinancing Transactions, may also require us to expense previous debt issuance costs or to incur new debt issuance costs.

In addition, our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our ratings reflect the opinions of the ratings agencies of our financial strength, operating performance and ability to meet our debt obligations. There can be no assurance that we will achieve a particular rating or maintain a particular rating in the future.

We may from time to time seek to further refinance our substantial indebtedness by issuing additional shares of our common stock in one or more securities offerings. These securities offerings may dilute our existing shareholders, reduce the value of our common stock, or both. Because our decision to issue securities will depend on, among other things, market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future securities offerings. Thus, holders of our common stock bear the risk of our future offerings diluting and potentially reducing the value of our common stock.

We participate in a highly competitive industry that is subject to declining average selling prices (“ASPs”), volatile gross margins and significant shifts in market share, all of which could adversely affect our operating results and financial condition.

Demand for our devices, software and solutions that we offer to our customers, which we refer to in this Item 1A as our “products”, depends in large part on the demand for systems (including personal computers (“PCs”) and mobile devices) manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for our products in any given period. The price of NAND-flash memory is influenced by, among other factors, the balance between supply and demand, including the effects of new fab capacity in the industry, macroeconomic factors, business conditions, technology transitions, conversion of industry DRAM capacity to NAND, conversion of 2D NAND capacity to 3D NAND or other actions taken by us or our competitors. The price of HDDs is influenced by, among other factors, the balance between supply and demand, including the effects of new fab capacity in the industry, macroeconomic factors, business conditions, technology transitions, and other actions taken by us or our competitors. The storage market has experienced periods of excess capacity, which can lead to liquidation of excess inventories and significant reductions in price. If these price changes occur unnecessarily or in an unexpected manner, there will likely be an adverse impact on our revenue and gross margins. In addition, we compete based on our ability to offer our customers competitive solutions that provide the most current and desired product and service features. We expect that competition will continue to be intense, and there is a risk that our competitors’ products may be less costly, provide better performance or include additional features when compared to our products. Additionally, some of our competitors may be able to use their broader portfolio of products to win sales from us. Our ASPs and gross margins also tend to decline when there is a shift in the mix of product sales, and sales of lower priced products increase relative to those of higher priced products. Further, we face potential gross margin pressures resulting from our ASPs declining more rapidly than our cost of goods sold. Rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, along with others, may also result in significant shifts in market share among the industry’s major participants, including a substantial decrease in our market share, all of which could adversely impact our operating results and financial condition.

Our failure to accurately forecast market and customer demand for our products, or to quickly adjust to forecast changes, could adversely affect our business and financial results or operating efficiencies.

The data storage industry faces difficulties in accurately forecasting market and customer demand for its products. The variety and volume of products we manufacture are based in part on these forecasts. Accurately forecasting demand has become increasingly difficult for us, our customers and our suppliers in light of the volatility in global economic conditions and industry consolidation, resulting in less availability of historical market data for certain product segments. Further, for many of our OEMs utilizing just-in-time inventory, we do not generally require firm order commitments and instead receive a periodic forecast of requirements, which may prove to be inaccurate. In addition, because our products are designed to be largely interchangeable with competitors’ products, our demand forecasts may be impacted significantly by the strategic actions of our competitors. As forecasting demand becomes more difficult, the risk that our forecasts are not in line with demand increases. If our forecasts exceed actual market demand, then we could experience periods of product oversupply, excess inventory, and price decreases, which could impact our financial performance. If market demand increases significantly beyond our forecasts or beyond our ability to add manufacturing capacity, then we may not be able to satisfy customer product needs, possibly resulting in a loss of market share if our competitors are able to meet customer demands. In addition, some of our components have long lead-times, requiring us to place orders several months in advance of anticipated demand. Such long lead-times increase the risk of excess inventory or loss of sales in the event our forecasts vary substantially from actual demand.

We experience significant sales seasonality and cyclical, which could cause our operating results to fluctuate.

Sales of computer systems, mobile devices, storage subsystems, gaming consoles and consumer electronics (“CE”) tend to be seasonal and cyclical, and therefore we expect to continue to experience seasonality and cyclical in our business as we respond to variations in our customers’ demand for our products. However, changes in seasonal and cyclical patterns have made it, and could continue to make it, more difficult for us to forecast demand, especially as a result of the current macroeconomic environment. Changes in the product or channel mix of our business can also impact seasonal and cyclical patterns, adding complexity in forecasting demand. Seasonality and cyclical also may lead to higher volatility in our stock price. It is difficult for us to evaluate the degree to which seasonality and cyclical may affect our stock price or business in future periods because of the rate and unpredictability of product transitions and new product introductions and macroeconomic conditions.

Our sales to the CE, cloud computing, network attached storage (“NAS”), surveillance systems and enterprise markets, which have accounted for and may continue accounting for an increasing percentage of our overall revenue, may grow at a slower rate than current estimates or not at all, which could materially adversely impact our operating results and financial condition.

The secular growth of digital data has resulted in a more diversified mix of revenue from the CE, cloud computing, NAS, surveillance systems and enterprise markets. As sales into these markets have become a more significant portion of our revenue, events or circumstances that adversely impact demand in these markets, or our inability to address that demand successfully, could materially adversely impact our operating results. For example, demand in, or our sales to, these markets may be adversely affected by the following:

- **Mobile Devices.** There has been and continues to be a rapid growth in devices that do not contain a hard drive such as tablet computers and smart phones. As tablet computers and smart phones provide many of the same capabilities as PCs, they have displaced or materially affected, and we expect will continue to displace or materially affect, the demand for PCs. If we are not successful in adapting our product offerings to include disk drives or alternative storage solutions that address these devices, even after our acquisition of SanDisk, demand for our products in these markets may decrease and our financial results could be materially adversely affected. In addition, global slowdown in the growth rate of mobile devices will also negatively impact our financial results.
- **Enterprise.** The enterprise storage space is comprised of customers with long design, qualification and test cycles prior to sales. We spend substantial time and resources in our sales process without any assurance that our efforts will produce any customer orders on the timelines or in the quantities we expect. These lengthy and uncertain processes also make it difficult for us to forecast demand and timing of customer orders. Due to longer customer product cycles, we may not be able to transition customers to our leading edge products, which would prevent us from benefitting from the technology transitions that enable cost reductions, which may harm our gross margin. Demand for our enterprise solutions from our hyperscale customers is correlated to large projects and expansions which can be sporadic, resulting in demand that is lumpy and less consistent than the consumer-driven demand for many of our solutions. Hyperscale customers may place orders for significant volumes with short lead times that may be difficult for us to fulfill, and sales to hyperscale customers may negatively impact gross margins due to product mix and pricing, each of which could adversely affect our business. In addition, hyperscale companies may internally develop enterprise storage solutions that reduce the demand for our solutions.
- **Cloud Computing.** Consumers traditionally have stored their data on their PC, often supplemented with personal external storage devices. Most businesses also include similar local storage as a primary or secondary storage location. This storage is typically provided by HDDs and increasingly SSDs. With cloud computing, applications and data are hosted, accessed and processed through a third-party provider over a broadband Internet connection, potentially reducing or eliminating the need for, among other things, significant storage inside the accessing electronic device. Even if we are successful at increasing revenues from sales to cloud computing customers, if we are not successful in manufacturing compelling products to address the cloud computing opportunity, demand for our products in these other markets may decrease and our financial results could be materially adversely affected. Demand for cloud computing solutions themselves may be volatile due to differing patterns of technology adoption and innovation, improved data storage efficiency by cloud computing service providers, and concerns about data protection by end users.
- **Obsolete Inventory.** In some cases, products we manufacture for these markets are uniquely configured for a single customer’s application, creating a risk of obsolete inventory if anticipated demand is not actually realized. In addition, rapid technological change in our industry increases the risk of inventory obsolescence.
- **Macroeconomic Conditions.** Consumer spending has been, and may continue to be, adversely affected in many regions due to negative macroeconomic conditions and high unemployment levels. Please see the risk factor entitled “*Adverse global economic conditions and credit market uncertainty could harm our business, results of operations and financial condition*” for additional risks and uncertainties relating to macroeconomic conditions.

In addition, demand in these areas also could be negatively impacted by developments in the regulation and enforcement of digital rights management and the emergence of new technologies, such as data duplication, compression and storage virtualization. If we are not able to respond appropriately, these factors could lead to our customers' storage needs being satisfied at lower prices with lower capacity hard drives or solid-state storage products, thereby decreasing our revenue or putting us at a disadvantage to competing storage technologies. As a result, even with increasing aggregate demand for digital storage, if we fail to anticipate or timely respond to these developments in the demand for storage, our ASPs could decline, which could adversely affect our operating results and financial condition. Furthermore, our ability to accurately read and respond to market trends, such as trends relating to the Internet of Things (commonly referred to as "IoT") or big data, could harm our results.

Deterioration in the PC market may continue or accelerate, which could cause our operating results to suffer.

While sales to non-PC markets are becoming a more significant source of revenue, sales to the PC market remain an important part of our business. We believe that sales of PCs have declined due to fundamental changes in the PC market, including the growth of alternative mobile devices and the lengthening of product life cycles, and that further deterioration of the PC market may continue or accelerate, which could cause our operating results and financial condition to suffer. Additionally, if demand in the PC market is worse than expected as a result of these or other conditions, or demand for our products in the PC market decreases at a faster rate than expected, our operating results and financial condition may be adversely affected.

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

Selling branded products is an important part of our business, and as our branded products revenue increases as a portion of our overall revenue, our success in the retail market becomes increasingly important to our operating results. Our success in the retail market depends in large part on our ability to maintain our brand image and corporate reputation and to expand into and gain market acceptance of our products in multiple channels. We must successfully respond to the rapid change away from traditional advertising media, marketing and sales methods to the use of Internet media and advertising, particularly social media, and online sales, or our brand and retail sales could be negatively affected. Adverse publicity, whether or not justified, or allegations of product or service quality issues, even if false or unfounded, could tarnish our reputation and cause our customers to choose products offered by our competitors. In addition, the proliferation of new methods of mass communication facilitated by the Internet makes it easier for false or unfounded allegations to adversely affect our brand image and reputation. If customers no longer maintain a preference for our product brands, our operating results may be adversely affected. A significant portion of our sales is made through retailers, and if our retailers are not successful in selling our products, not only would our revenue decrease, but we could also experience lower gross margin due to the return of unsold inventory or the protection we provide to retailers against price declines.

Sales in the distribution channel are important to our business, and if we fail to respond to demand changes in distribution markets or if distribution markets for our products weaken, our operating results could suffer.

Our distribution customers typically sell to small computer manufacturers, dealers, systems integrators and other resellers. We face significant competition in this channel as a result of limited product qualification programs and a significant focus on price and availability of product. In addition, the PC market is experiencing a shift to notebook and other mobile devices and, as a result, more computing devices are being delivered to the market as complete systems, which could weaken the distribution market. If we fail to respond to changes in demand in the distribution market, our operating results could suffer. Additionally, if the distribution market weakens as a result of a slowing PC growth rate, technology transitions or a significant change in consumer buying preference, or if we experience significant price declines due to demand changes in the distribution channel, then our operating results would be adversely affected. Negative changes in the credit-worthiness or the ability to access credit, or the bankruptcy or shutdown of any of our significant retail or distribution partners would harm our revenue and our ability to collect outstanding receivable balances.

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

During the three months ended December 29, 2017, 41.2% of our revenue came from sales to our top 10 customers. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, often resulting in the allocation of risk to us as the supplier. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship, our operating results and financial condition would likely be harmed.

Additionally, if there is consolidation among our customer base, our customers may be able to command increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, if, as a result of increased leverage, customer pressures require us to reduce our pricing such that our gross margins are diminished, it might not be feasible to sell our products to a particular customer, which could result in a decrease in our revenue. Consolidation among our customer base may also lead to reduced demand for our products, replacement of our products by the combined entity with those of our competitors and cancellations of orders, each of which could harm our operating results.

Also, the storage ecosystem is constantly evolving, and our traditional customer base is changing. Fewer companies now hold greater market share for certain applications and services, such as mobile, social media, shopping and streaming media. As a result, the competitive landscape is changing, giving these companies increased leverage in negotiating prices and other terms of sale, which could adversely affect our profitability. In addition, the changes in our evolving customer base create new selling and distribution patterns to which we must adapt. To remain competitive, we must respond to these changes by ensuring we have proper scale in this evolving market, as well as offer products that meet the technological requirements of this customer base at competitive pricing points. To the extent we are not successful in adequately responding to these changes, our operating results and financial condition could be harmed.

Expansion into new markets may increase the complexity of our business and cause us to increase our R&D expenses and investments in manufacturing capability, technology enhancements and go-to-market capability, and if we are unable to successfully adapt our business processes and product offerings as required by these new markets, our ability to grow will be adversely affected.

To remain a significant supplier in the storage industry and to expand into new markets, we will need to offer a broader range of storage products to our customers. We currently offer a variety of 3.5-inch and 2.5-inch HDDs, SSDs and systems, flash storage solutions, and other products for the PC, mobile, enterprise, data center and other storage markets. As we expand our product lines to sell into new markets, such as our recent entry into active archive systems and new flash memory business through the Merger, including the vertically integrated business model through Flash Ventures, the overall complexity of our business may increase at an accelerated rate and we may become subject to different market dynamics. These dynamics may include, among other things, different demand volume, cyclicalities, seasonality, product requirements, sales channels, and warranty and return policies. In addition, expansion into other markets may result in increases in R&D expenses and substantial investments in manufacturing capability, technology enhancements and go-to-market capability. Flash Ventures requires significant investments by both TMC and us for technology transitions, including the transition to 3D NAND, and capacity expansions. If we fail to successfully expand into new markets with products that we do not currently offer, we may lose business to our competitors or new entrants who offer these products.

Our vertical integration of some of our products makes us dependent on our ability to timely and cost-effectively develop products with leading technology and overall quality, increasing capital expenditure costs and asset utilization risks for our business.

We develop NAND-flash memory as well as other non-volatile memory technology through our partnership with TMC; we are also vertically integrated in a substantial portion of the recording heads and magnetic media used in the hard drive products we produce. Consequently, for some of our products, we are more dependent upon our own development and execution efforts and less able to take advantage of technologies developed by other manufacturers. Since we may not have access to alternative technologies that we do not develop internally, we may have to pay royalties in order to access those technologies.

In addition, we may be unsuccessful in timely and cost-effectively developing and manufacturing products using future technologies. We also may not effectively transition our design and technology to achieve acceptable manufacturing yields using the technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the products we manufacture. If we are unable to timely and cost-effectively develop products with leading technology and overall quality, continuing the cost reductions necessary to maintain adequate gross margin and our ability to sell our products may be significantly diminished, which could materially and adversely affect our business and financial results.

Further, as a result of our vertical integration of some of our products, we make more capital investments and carry a higher percentage of fixed costs than we would if we were not vertically integrated. If our overall level of production decreases for any reason, and we are unable to reduce our fixed costs to match sales, some of our assets may face underutilization that may impact our operating results. We are therefore subject to additional risks related to overall asset utilization, including the need to operate at high levels of utilization to drive competitive costs and the need for assured supply of components that we do not manufacture ourselves. In addition, as a result of adverse labor rates or availability, we may be required to increase investments in automation, which may cause our capital expenditures to increase. If we do not adequately address these challenges, our ongoing operations could be disrupted, resulting in a decrease in our revenue or profit margins and negatively impacting our operating results.

We make significant investments in R&D to improve our technology and develop new technologies, and unsuccessful investments or investments that are not cost effective could materially adversely affect our business, financial condition and results of operations.

As a leading supplier of hard drives and flash storage solutions, we make significant investments to maintain our existing products and to lead innovation and development of new technologies. This strategy requires us to make significant investments in R&D. In addition, we may increase our capital expenditures and expenses above our historical run-rate model in order to remain competitive or as a result of the Merger with SanDisk, which has historically maintained higher levels of investment in R&D than our company. The current inherent physical limitations associated with storage technologies are resulting in more costly capital expenditures that reduce the cost benefits of technology transitions and could limit our ability to keep pace with reductions in ASPs. These investments may not result in viable technologies or products, and even if they do result in viable technologies or products, they may not be profitable or accepted by the market. Significant investments in unsuccessful or cost-ineffective R&D efforts could materially adversely affect our business, financial condition and results of operations. In addition, increased investments in technology could cause our cost structure to fall out of alignment with demand for our products, which would have a negative impact on our financial results.

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

It may be possible for our current or future competitors to gain an advantage in product technology, manufacturing technology, or process technology, which may allow them to offer products or services that have a significant advantage over the products and services that we offer. Advantages could be in price, capacity, performance, reliability, serviceability, industry standards or formats, brand and marketing, or other attributes. A competitive cost structure for our products, including critical components, labor and overhead, is also critical to the success of our business. We may be at a competitive disadvantage to any companies that are able to gain a technological or cost structure advantage. The Chinese government and various agencies, state-owned or affiliated enterprises and investment funds are making significant investments to promote China's domestic semiconductor industry consistent with the government's stated national policy objectives. If we are unable to effectively compete with any manufacturers located in China or non-Chinese competitors benefitting from alliances with Chinese companies in the markets where we compete, our operating results and financial condition will suffer.

Consolidation within the data storage industry could provide competitive advantages to our competitors.

The data storage industry as a whole has experienced consolidation over the past several years through acquisitions, mergers and decisions by industry players to exit the industry. Further consolidation across the industry, including by our competitors who are vertically integrated with NAND-flash memory, may enhance their capacity, abilities and resources and lower their cost structure, causing us to be at a competitive disadvantage.

Some of our competitors with diversified business units outside of storage products, may, over extended periods of time, sell storage products at prices that we cannot profitably match.

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

If we fail to qualify our products and achieve design wins with our customers, it may have a significant adverse impact on our sales and margins.

We regularly engage in new product qualification with our customers, and the product qualification process may be lengthy for some customers, including those in enterprise storage. Once a product is accepted for qualification testing, failures or delays in the qualification process can result in delayed or reduced product sales, reduced product margins caused by having to continue to offer a more costly current generation product, or lost sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume OEMs and hyperscale customers, which continue to consolidate their share of the storage markets. Likewise, if product life cycles lengthen, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could reduce our profits because we expect declining gross margins on our current generation products as a result of competitive pressures. Even if our products meet customer specifications, our sales to these customers are dependent upon the customers choosing our products over those of our competitors and purchasing our products in sufficient volume, our ability to supply our products in sufficient quantity and in a timely manner and, with respect to OEM partners, the OEMs' ability to create, market and successfully sell products containing our solutions. Moreover, in transitioning to new technologies, such as 3D NAND, and products, we may not achieve design wins, our customers may delay transition to these new technologies, our competitors may transition more quickly than we do, or we may experience product delays, cost overruns or performance issues that could harm our operating results and financial condition.

We are subject to risks related to product defects or the unintended use or security breaches of our products, which could result in product recalls or epidemic failures and could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated, litigation or indemnification claims.

We warrant the majority of our products for periods of one to five years. We test our products in our manufacturing facilities through a variety of means. However, our testing may fail to reveal defects in our products that may not become apparent until after the products have been sold into the market. In addition, our products may be used in a manner that is not intended or anticipated by us, resulting in potential liability. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement. As part of a product recall, we may be required or choose to replace the defective product. Moreover, there is a risk that product defects may trigger an epidemic failure clause in a customer agreement. If an epidemic failure occurs, we may be required to replace or refund the value of the defective product and to cover certain other costs associated with the consequences of the epidemic failure. In addition, product defects, product recalls or epidemic failures may cause damage to our reputation or customer relationships, lost revenue, indemnification for a recall of our customers' products, warranty claims, litigation or loss of market share with our customers, including our OEM and original design manufacturers ("ODM") customers. Our business liability insurance may be inadequate or future coverage may be unavailable on acceptable terms, which could adversely impact our operating results and financial condition.

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

Certain of our products contain encryption or security algorithms to protect third party content and user-generated data stored on our products. To the extent our products are hacked or the encryption schemes are compromised or breached, this could harm our business by hurting our reputation, requiring us to employ additional resources to fix the errors or defects and expose us to litigation and indemnification claims.

In addition, third-party components or applications that we incorporate or use in our products may contain defects in design or manufacturing that could unexpectedly result in epidemic failures, security vulnerabilities or performance issues and subject us to liability.

Our strategic relationships subject us to risks that could adversely affect our business, financial condition and results of operations.

We have entered into strategic relationships with various partners for future product development, sales growth and the supply of technologies, components, equipment and materials for use in our product design and manufacturing, including our partnership with TMC for NAND-flash memory development and manufacturing. Please see the risk factor entitled “*Because we are dependent on a limited number of qualified suppliers for components, sub-assemblies, testing, equipment, consumables, raw materials, and logistics, a supplier’s inability, unwillingness, or failure to support us in a timely manner with goods or services at a quality level and cost acceptable to us can adversely affect our margins, revenues and operating results*” for a further description of the risks associated with our reliance on external suppliers. These strategic relationships are subject to various risks that could adversely affect the value of our investments and our results of operations and financial condition. These risks include, but are not limited to, the following:

- our interests could diverge from our partners’ interests or we may not agree with co-venturers on ongoing activities, technology transitions or on the amount, timing or nature of further investments in the relationship;
- we may experience difficulties and delays in product and technology development at, ramping production at, and transferring technology to, our business ventures;
- our control over the operations of our business ventures is limited;
- due to financial constraints, our co-venturers may be unable to meet their commitments to us or may pose credit risks for our transactions with them;
- due to differing business models, financial constraints or long-term business goals, our partners may decide not to join us in funding capital investment by our business ventures, which may result in higher levels of cash expenditures by us or prevent us from proceeding in the investment;
- we may lose the rights to technology or products being developed by the strategic relationship, including if any of our co-venturers is acquired by another company or otherwise transfers its interest in the business venture, files for bankruptcy or experiences financial or other losses;
- a bankruptcy event involving a co-venturer could result in the early termination or adverse modification of the business venture or agreements governing the business venture;
- we may experience difficulties or delays in collecting amounts due to us from our co-venturers;
- the terms of our arrangements may turn out to be unfavorable; and
- changes in tax, legal or regulatory requirements may necessitate changes in the agreements with our co-venturers.

If our strategic relationships are unsuccessful or there are unanticipated changes in, or termination of, our strategic relationships, our business, results of operations and financial condition may be adversely affected.

Because we are dependent on a limited number of qualified suppliers for components, sub-assemblies, testing, equipment, consumables, raw materials, and logistics, a supplier's inability, unwillingness, or failure to support us in a timely manner with goods or services at a quality level and cost acceptable to us can adversely affect our margins, revenues and operating results.

We depend on an external supply base for technologies, software (including firmware), preamps, controller, components, equipment and materials for use in our product design and manufacturing. We also depend on suppliers for a portion of our wafer testing, chip assembly, product assembly and product testing, and on service suppliers for providing technical support for our products. In addition, we use logistics partners to manage our just-in-time hubs, distribution centers and freight from suppliers to our factories and from our factories to our customers throughout the world. Many of the components and much of the equipment we acquire must be specifically designed to be compatible for use in our products or for developing and manufacturing our future products, and are only available from a limited number of suppliers, some of whom are our sole-source suppliers. We are therefore dependent on these suppliers to be able and willing to dedicate adequate engineering resources to develop components that can be successfully integrated into our products, technology and equipment that can be used to develop and manufacture our next-generation products efficiently. Our supply base has experienced industry consolidation. Where we rely on a limited number of suppliers or a single supplier, the risk of supplier loss due to industry consolidation is enhanced. Some of our suppliers may be competitors in other areas of our business, which could lead to difficulties in price negotiations or meeting our supply requirements. Any disruption in our supply chain could reduce our revenue and adversely impact our financial results.

From time to time, our suppliers have experienced difficulty meeting our requirements. If we are unable to purchase sufficient quantities from our current suppliers or qualify and engage additional suppliers, we may not be able to meet demand for our products. We do not have long-term contracts with some of our existing suppliers, nor do we always have guaranteed manufacturing capacity with our suppliers and, therefore, we cannot guarantee that they will devote sufficient resources or capacity to manufacturing our products. We are not able to directly control product delivery schedules or quality assurance. Furthermore, we manufacture on a turnkey basis with some of our suppliers. In these arrangements, we do not have visibility and control of our suppliers' inventories of purchased parts necessary to build our products or of the progress of our products through their assembly line. Any significant problems that occur at our suppliers, or their failure to perform at the level we expect, could lead to product shortages or quality assurance problems, either of which would harm our operating results and financial condition. In addition, if we are unable to purchase sufficient quantities from our current suppliers, we may not be able to engage alternative suppliers who are able or willing to provide goods or services in sufficient quantities or at a cost acceptable to us.

Many of our products require preamps, controllers and firmware. We rely on a limited number of third-party vendors to develop or supply preamps and controllers for many of our products. Any delays or cost increases in developing or sourcing preamps, controllers or firmware, or incompatibility or quality issues relating to the controllers or firmware in our products, could harm our financial results as well as business relationships with our customers.

A majority of our flash memory is currently supplied by Flash Ventures and, to a much lesser extent, by third-party silicon suppliers. Any disruption or shortage in supply of flash memory from our captive or non-captive sources would harm our operating results and financial condition. Many of the risks that affect us also affect our supply base and Flash Ventures, including, but not limited to, having single site manufacturing locations and other facilities based in high risk regions of the world (for example, Flash Ventures is located in Yokkaichi, Japan), natural disasters, power shortages, macro and local economic conditions, shortages of commodity materials, proper management of technology transitions, geo-political risks, employee strikes and other labor actions, compliance with legal requirements, financial instability and exposure to IP and other litigation, including an injunction or other action that could delay shipping. If any of these risks were to affect our suppliers or Flash Ventures, we could also be adversely affected, especially in the case of products, components or services that are single-sourced. For example, if suppliers are facing increased costs due to the above risks, they may require us to enter into long-term volume agreements to shift the burden of fixed costs to us. Further, we work closely with many of our suppliers and strategic partners to develop new technologies and, as a result, we may become subject to litigation from our suppliers, strategic partners or third parties.

Without a capable and financially stable supply base that has established appropriate relationships within the supply chain and has implemented business processes, strategies and risk management safeguards, we would be unable to develop our products, manufacture them in high volumes, and distribute them to our customers to execute our business plans effectively. Some of our suppliers have also experienced a decline in financial performance. Our suppliers may be acquired by our competitors, consolidate, or decide to exit the industry, redirect their investments and increase costs to us, each of which may have an adverse effect on our business and operations. In addition, moving to new technologies may require us to align to, and build, a new supply base. Our success in new product areas may be dependent on our ability to develop close relationships with new suppliers, with preferential agreements. Where this cannot be done, our business and operations may be adversely affected.

In addition to an external supply base, we also rely on an internal supply chain of heads, media and media substrate, and we rely on our business ventures with TMC for the supply of NAND-flash memory. Please see the risk factors entitled, “*The substitution or replacement of our technologies and products by new technologies could make our products obsolete and harm our operating results,*” “*If we do not properly manage technology transitions, our competitiveness and operating results may be negatively affected,*” “*We rely substantially on our business ventures with Toshiba’s wholly owned subsidiary, Toshiba Memory Corporation (“TMC”), for the supply of NAND-flash memory and the development of NAND-flash technology, which subjects us to risks and uncertainties that could harm our business, financial condition and operating results*” and “*Our strategic relationships subject us to risks that could adversely affect our business, financial condition and results of operations*” for a review of some of the risks related to these supplies.

Price volatility, shortages of critical materials or components, or use by other industries of materials and components used in the storage industry, may negatively impact our operating results.

Increases in the cost for certain critical materials and components and oil may increase our costs of manufacturing and transporting our products and key components and may result in lower operating margins if we are unable to pass these increased costs on to our customers. Shortages of critical components such as DRAM and NAND-flash memory, or materials such as glass substrates, stainless steel, aluminum, nickel, neodymium, ruthenium, platinum or cerium, may increase our costs and may result in lower operating margins if we are unable to find ways to mitigate these increased costs. We or our suppliers acquire certain precious metals and rare earth metals like ruthenium, platinum, neodymium and cerium, which are critical to the manufacture of components in our products from a number of countries, including the People’s Republic of China. The government of China or any other nation may impose regulations, quotas or embargoes upon these metals that would restrict the worldwide supply of such metals or increase their cost, both of which could negatively impact our operating results until alternative suppliers are sourced. Furthermore, if other high volume industries increase their demand for materials or components used in our products, our costs may further increase, which could have an adverse effect on our operating margins. In addition, shortages in other components and materials used in our customers’ products could result in a decrease in demand for our products, which would negatively impact our operating results.

Contractual commitments with component suppliers may result in us paying increased charges and cash advances for such components or may cause us to have inadequate or excess component inventory.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying components, which may subject us to cancellation charges if we cancel orders as a result of technology transitions or changes in our component needs. In addition, we may from time to time enter into contractual commitments with component suppliers in an effort to increase and stabilize the supply of those components and enable us to purchase such components at favorable prices. Some of these commitments may require us to buy a substantial number of components from the supplier or make significant cash advances to the supplier; however, these commitments may not result in a satisfactory increase or stabilization of the supply of such components. Furthermore, as a result of uncertain global economic conditions, our ability to forecast our requirements for these components has become increasingly difficult, therefore increasing the risk that our contractual commitments may not meet our actual supply requirements, which could cause us to have inadequate or excess component inventory and adversely affect our operating results and increase our operating costs.

If we do not properly manage technology transitions, our competitiveness and operating results may be negatively affected.

The storage markets in which we offer our products continuously undergo technology transitions that we must anticipate and adapt our products to address in a timely manner. If we fail to implement new technologies successfully, or if we are slower than our competitors at implementing new technologies, we may not be able to competitively offer products that our customers desire or keep pace with ASP reduction, which could harm our operating results. For example, in transitioning our 2D NAND manufacturing capacity to 3D NAND technology, we could experience delays or other challenges in the production ramp, qualification of wafers, shipment of samples to customers or customer approval process. 3D NAND and any new manufacturing node may be more susceptible to manufacturing yield issues. Manufacturing yield issues may not be identified during the development or production process or solved until an actual product is manufactured and tested, further increasing our costs. If our technology transitions, including the production ramp of 3D NAND technology, take longer, are more costly to complete than anticipated, or do not improve manufacturing yield or other manufacturing efficiencies, our flash memory costs may not remain competitive with other NAND-flash memory producers or may not fall commensurate with declines in the price of NAND-flash memory, which would harm revenues, our gross margin and operating results.

Many companies, including some of our competitors, have developed or are attempting to develop alternative non-volatile technologies. Successful broad-based commercialization of one or more competing technologies, as well as differing strategies and timing with respect to the transition from 2D NAND to 3D NAND, could reduce the competitiveness and future revenue and profitability of our 2D NAND and 3D NAND-flash technologies. For additional technology transition risks related to 3D NAND, see “*We rely substantially on our business ventures with Toshiba’s wholly owned subsidiary, Toshiba Memory Corporation (“TMC”), for the supply of NAND-flash memory and the development of NAND-flash technology, which subjects us to risks and uncertainties that could harm our business, financial condition and operating results*” and “*Our strategic relationships subject us to risks that could adversely affect our business, financial condition and results of operations.*”

With respect to HDDs, we announced that we will use microwave-assisted magnetic recording (MAMR) technology to increase HDD capacities. If our HDD technology transitions, including the production ramp of MAMR HDDs, take longer or are more costly to complete than anticipated or if we otherwise fail to implement new HDD technologies successfully, we may not remain competitive with other HDD producers, which could adversely affect our revenues, our gross margin and operating results.

In addition, if our customers choose to delay transition to new technologies, if demand for the products that we develop is lower than expected or if the supporting technologies to implement these new technologies are not available, we may be unable to achieve the cost structure required to support our profit objectives or may be unable to grow or maintain our market position.

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

If product life cycles lengthen, we may need to develop new technologies or programs to reduce our costs on any particular product to maintain competitive pricing for that product. Longer product life cycles could also restrict our ability to transition customers to our newer products in a timely manner, or at all, negatively impacting our ability to recoup our significant R&D investments to improve our existing technology and develop new technologies. If product life cycles shorten, it may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results. In addition, shortening of product life cycles also makes it more difficult to recover the cost of product development before the product becomes obsolete. Our failure to recover the cost of product development in the future could adversely affect our operating results.

The substitution or replacement of our technologies and products by new technologies could make our products obsolete and harm our operating results.

Given the pace of technological development, there is a possibility that new technologies could substitute for or replace our current technologies and products and make them obsolete. Historically, when the industry experiences a fundamental change in storage technologies or standards, any manufacturer that fails to successfully and timely adjust its designs and processes to accommodate or manufacture the new technology or standard fails to remain competitive. There are some revolutionary technologies, such as current-perpendicular-to-plane giant magnetoresistance, shingle magnetic recording, heat-assisted magnetic recording, patterned magnetic media and advanced signal processing that, if implemented by a competitor on a commercially viable basis ahead of the industry, could put us at a competitive disadvantage. In addition, many companies, including some of our competitors, have developed or are attempting to develop alternative non-volatile technologies, including non-NAND technologies such as magnetoresistive random-access memory (“RAM”), resistive random-access memory (“ReRAM”) and phase change, as well as NAND based vertical or stacked 3D memories based on charge trap, floating gate and other cell architecture. In embedded solutions, certain competitors have recently introduced a mobile storage standard referred to as Universal Flash Storage (“UFS”). In the data center market, certain competitors have recently introduced a non-volatile memory express (“NVMe”) product that can be used as a substitute for our peripheral component interconnect express (“PCIe”) solutions. In addition, a provider of processors and non-volatile memory solutions may be developing a new standard to attach ultra-low latency non-volatile memory to its processor memory bus, which it may choose not to license to its competitors, resulting in it being a single source provider of such non-volatile memory solutions. As a result of these shifts in technology and standards, we could incur substantial costs in developing new technologies, such as recording heads, magnetic media and tools, in adopting new standards or in investing in different capital equipment or manufacturing processes to remain competitive. If we fail to successfully implement these new technologies or standards, or if we are significantly slower than our competitors at implementing new technologies or standards, we may not be able to offer products with capacities and capabilities that our customers desire, which could harm our operating results.

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

Storage capacity of the hard drive, as manufactured by us, is determined by the number of disks and each disk’s areal density. Areal density is a measure of the amount of magnetic bits that can be stored on the recording surface of the disk. Generally, the higher the areal density, the more information can be stored on a single platter. Higher areal densities require existing recording head and magnetic media technology to be improved or new technologies developed to accommodate more data on a single disk. Historically, we have been able to achieve a large percentage of cost reduction through increases in areal density. Increases in areal density mean that the average drive we sell has fewer heads and disks for the same capacity and, therefore, may result in a lower component cost. However, increasing areal density has become more difficult in the storage industry. If we are not able to increase areal density at the same rate as our competitors or at a rate that is expected by our customers, we may be required to include more components in our drives to meet demand without corresponding incremental revenue, which could negatively impact our operating margins and make achieving historical levels of cost reduction difficult or unlikely. Additionally, increases in areal density may require us to make further capital expenditures on items such as new test equipment needed as a result of an increased number of gigabytes per platter. Our inability to achieve cost reductions could adversely affect our operating results.

Our license and royalty revenue may fluctuate or decline significantly in the future due to license agreement expirations or renewals, declines in sales of the products or use of technology underlying the license and royalty revenue by our licensees, or if licensees fail to perform on a portion or all of their contractual obligations.

If our existing licensees do not renew their licenses upon expiration, renew or sign new agreements on less favorable terms, exercise their option to terminate the license or fail to exercise their option to extend the licenses, or we are not successful in signing new licensees in the future, our license revenue, profitability and cash provided by operating activities would be harmed and we may incur significant patent litigation costs to enforce our patents against these licensees. As our older patents expire, and the coverage of our newer patents may be different, it may be more difficult to negotiate or renew favorable license agreement terms or a license agreement at all. Our agreements may require us in certain instances to recognize license revenue related to a particular licensee all in one period instead of over time, which could create additional volatility in our licensing revenue. A portion of our license and royalty revenue is based on sales of product categories as well as the underlying technology, and fluctuations in the sales of those products or technology adoption rates would also result in fluctuations in the license and royalty revenue due to us under our agreements. If our licensees or we fail to perform on contractual obligations, we may incur costs to enforce or defend the terms of our licenses and there can be no assurance that our enforcement, defense or collection efforts will be effective. If we license new IP from third parties or existing licensees, we may be required to pay license fees, royalty payments or offset existing license revenue. We may enter into agreements with customers, suppliers or partners that could limit our ability to monetize our IP or could result in us being required to provide IP indemnification to our customers, suppliers or partners. In addition, we may be subject to disputes, claims or other disagreements on the timing, amount or collection of royalties or license payments under our license agreements.

If we do not properly manage new product development, our competitiveness and operating results may be negatively affected.

Our success depends in part on our ability to develop and introduce new products in a timely manner in order to keep pace with technology advancements. Advances in semiconductor technology have resulted in other emerging technologies that can be competitive with traditional storage technologies. We may be unsuccessful in anticipating and developing new and improved products for the client, enterprise and other storage markets in response to competing technologies. If our hard drive, solid-state products and our storage solutions products fail to offer a superior value proposition to alternative storage products, we will be at a competitive disadvantage and our business will suffer. In some cases, our customers' demand for a more diversified portfolio results in investments in new products for a particular market that do not necessarily expand overall market opportunity, which may negatively affect our operating results. As we introduce new products, standards or technologies, it can take time for these new standards or technologies to be adopted, for consumers to accept and transition to these new standards or technologies and for significant sales to be generated, if at all. Failure of consumers or enterprises to adopt our new products, standards or technologies could harm our results of operations as we fail to reap the benefits of our investments.

In addition, the success of our new product introductions depends on a number of other factors, including:

- difficulties faced in manufacturing ramp;
- implementing at an acceptable cost product features expected by our customers;
- market acceptance/qualification;
- effective management of inventory levels in line with anticipated product demand;
- quality problems or other defects in the early stages of new product introduction and problems with compatibility between our products and those of our customers that were not anticipated in the design of those products;
- our ability to increase our software development capability; and
- the effectiveness of our go-to-market capability in selling these new products.

In particular, as part of our growth strategy, we have made significant investments in active archive systems, which are designed to enable organizations to rapidly access massive long-term data stores. We expect to continue to make significant investments in active archive systems. Our active archive systems may fail to gain market acceptance, or the market for active archive systems may not grow as we anticipate.

We have also seen, and anticipate continuing to see, an increase in customers requesting that we develop products, including software associated with our products, that incorporate open source software elements and operate in an open source environment. Adapting to this demand may cause product delays, placing us at a competitive disadvantage. Open source products could also reduce our capability for product differentiation or innovation and our affected products could be diminished to commodity status, which we expect would place increased downward pressure on our margins. If we fail to successfully anticipate and manage issues associated with our product development generally, our business may suffer.

Additionally, we have announced our intention to transition future core, processor and controller development to the RISC-V architecture, which is an open source, data-centric compute architecture. There is no guarantee that this transition will be successful or that the expected benefits of such transition will be realized.

Our operations, and those of certain of our suppliers and customers, are concentrated in large, purpose-built facilities, subjecting us to substantial risk of damage or loss if operations at any of these facilities are disrupted.

As a result of our cost structure and strategy of vertical integration, we conduct our operations at large, high volume, purpose-built facilities in California and throughout Asia. The concentration of Flash Ventures in Yokkaichi, Japan, magnifies the risks of supply disruption. The facilities of many of our customers, our suppliers and our customers' suppliers are also concentrated in certain geographic locations throughout Asia and elsewhere. A localized health risk affecting our employees at these facilities or the staff of our or our customers' other suppliers, such as the spread of a pandemic influenza, could impair the total volume of our products that we are able to manufacture or sell, which would result in substantial harm to our operating results. Similarly, a fire, flood, earthquake, tsunami or other natural disaster, condition or event such as political instability, civil unrest or a power outage that adversely affects any of these facilities, including access to or from these facilities by employees or logistics operators, would significantly affect our ability to manufacture or sell our products, which would result in a substantial loss of sales and revenue and a substantial harm to our operating results. For example, prior to the 2011 flooding in Thailand, all of our internal slider capacity and 60% of our hard drive manufacturing capacity was in Thailand. As a result of the flooding in Thailand, our facilities were inundated and temporarily shut down. During that period, our ability to manufacture hard drives was significantly constrained, adversely affecting our business, financial condition and results of operations. In addition, the concentration of our manufacturing sites could exacerbate the negative impacts resulting from localized labor unrest or other employment issues. A significant event that impacts any of our manufacturing sites, or the sites of our customers or suppliers, could adversely affect our ability to manufacture or sell our products, and our business, financial condition and results of operations could suffer.

We may incur losses beyond the limits of, or outside the scope of, the coverage of our insurance policies. There can be no assurance that in the future we will be able to maintain existing insurance coverage or that premiums will not increase substantially. Due to market availability, pricing or other reasons, we may elect not to purchase insurance coverage or to purchase only limited coverage. We maintain limited insurance coverage and, in some cases, no coverage at all, for natural disasters and environmental damages, as these types of insurance are sometimes not available or available only at a prohibitive cost. We depend upon TMC to obtain and maintain sufficient property, business interruption and other insurance for Flash Ventures. If TMC fails to do so, we could suffer significant unreimbursable losses, and such failure could also cause Flash Ventures to breach various financing covenants.

If our technology infrastructure, systems or products are compromised, damaged or interrupted by cyber attacks, data security breaches, other security problems, security vulnerabilities or design defects, or sustain system failures, our operating results and financial condition could be adversely affected.

We experience cyber attacks of varying degrees on our technology infrastructure and systems and, as a result, unauthorized parties have obtained in the past, and may in the future obtain, access to our computer systems and networks. The technology infrastructure and systems of our suppliers, vendors and partners may also experience such attacks. Cyber attacks can include computer viruses, computer denial-of-service attacks, worms, and other malicious software programs or other attacks, covert introduction of malware to computers and networks, impersonation of authorized users, and efforts to discover and exploit any design flaws, bugs, security vulnerabilities or security weaknesses, as well as intentional or unintentional acts by employees or other insiders with access privileges, intentional acts of vandalism by third parties and sabotage. In some instances, efforts to correct vulnerabilities or prevent attacks may reduce the performance of our computer systems and networks, which could negatively impact our business. We believe cyber attack attempts are increasing in number and that cyber attackers are developing increasingly sophisticated systems and means to not only attack systems, but also to evade detection or to obscure their activities. Our products are also targets for cyber attacks. While some of our products contain encryption or security algorithms to protect third-party content or user-generated data stored on our products, these products could still be hacked or the encryption schemes could be compromised, breached, or circumvented by motivated and sophisticated attackers. We have agreed with certain customers and strategic partners, including TMC, to undertake certain commitments to promote information security, and we may be liable to TMC or such other parties if we fail to meet our cyber security commitments.

In addition, our technology infrastructure and systems are vulnerable to damage or interruption from natural disasters, power loss and telecommunications failures. Further, our products contain sophisticated hardware and operating system software and applications that may contain security problems, security vulnerabilities, or defects in design or manufacture, including “bugs” and other problems that could interfere with the intended operation of our products.

If efforts to breach our infrastructure, systems or products are successful or we are unable to protect against these risks, we could suffer interruptions, delays, or cessation of operations of our systems, and loss or misuse of proprietary or confidential information, IP, or sensitive or personal information. Breaches of our infrastructure, systems or products could also cause our customers and other affected third parties to suffer loss or misuse of proprietary or confidential information, IP, or sensitive or personal information, and could harm our relationships with customers and other third parties. As a result, we could experience additional costs, indemnification claims, litigation, and damage to our brand and reputation. All of these consequences could harm our reputation and our business and materially and adversely affect our operating results and financial condition.

Manufacturing, marketing and selling our products globally subjects us to numerous risks.

Currently, a large portion of our revenue is derived from our international operations, and many of our products and components are produced overseas. Our revenue and future growth is significantly dependent on the growth of international markets, and we may face difficulties in entering or maintaining international sales markets. We are subject to risks associated with our global manufacturing operations and global marketing and sales efforts, as well as risks associated with our utilization of and reliance on contract manufacturers, including:

- obtaining requisite governmental permits and approvals, compliance with foreign laws and regulations, changes in foreign laws and regulations;
- the need to comply with regulations on international business, including the Foreign Corrupt Practices Act, the United Kingdom Bribery Act 2010, the anti-bribery laws of other countries and rules regarding conflict minerals;
- currency exchange rate fluctuations or restrictions;
- political and economic instability, civil unrest and natural disasters;
- limited transportation availability, delays, and extended time required for shipping, which risks may be compounded in periods of price declines;
- higher freight rates;
- labor challenges, including difficulties finding and retaining talent or responding to labor disputes or disruptions;
- trade restrictions or higher tariffs and fees;

- import and export restrictions and license and certification requirements, including on encryption technology, and complex customs regulations;
- copyright levies or similar fees or taxes imposed in European and other countries;
- exchange, currency and tax controls and reallocations;
- increasing labor and overhead costs;
- weaker protection of IP rights;
- difficulties in managing international operations, including appropriate internal controls; and
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

As a result of these risks, our business, results of operations or financial condition could be adversely affected. Some of these risks, such as trade restrictions, higher tariffs and fees, import and export restrictions or loss of favorable tax treatment under agreements or treaties with foreign tax authorities, could increase as a result of changes to policies, rules and regulations which may be proposed or implemented by the U.S. President and his administration.

Terrorist attacks may adversely affect our business and operating results.

Recent terrorist incidents around the world and the continued threat of terrorist activity and other acts of war or hostility have created uncertainty in the financial and insurance markets and have significantly increased the political, economic and social instability in some of the geographic areas in which we, our suppliers or our customers operate. Additionally, it is uncertain what impact the reactions to such acts by various governmental agencies and security regulators worldwide will have on shipping costs. Acts of terrorism, either domestically or abroad, could create further uncertainties and instability. To the extent this results in disruption or delays of our manufacturing capabilities, R&D activities (including our operations in Israel) or shipments of our products, our business, operating results and financial condition could be adversely affected. Any of these events could also increase volatility in the U.S. and world financial markets, which could have a negative effect on our stock price and may limit the capital resources available to us and our customers or suppliers, or adversely affect consumer confidence.

Sudden disruptions to the availability of air transportation, or ocean or land freight lanes, could have an impact on our operations.

We generally ship our products to our customers, and receive shipments from our suppliers, via air, ocean or land freight. The sudden unavailability or disruption of air transportation, cargo operations or ocean, rail or truck freight lanes caused by, among other things, labor difficulties or disputes, severe weather patterns or other natural disasters, or political instability or civil unrest, could impact our operating results by impairing our ability to timely and efficiently receive shipments from our suppliers or deliver our products.

If we fail to identify, manage, complete and integrate acquisitions, investment opportunities or other significant transactions, which are a key part of our growth strategy, it may adversely affect our future results.

We seek to be an industry-leading developer, manufacturer and provider of innovative storage solutions, balancing our core hard drive and flash memory business with growing investments in newer areas that we believe will provide us with higher growth opportunities. Acquisitions of, investment opportunities in, or other significant transactions with companies that are complementary to our business are a key part of our overall business strategy. In order to pursue this part of our growth strategy successfully, we must continue to identify attractive acquisition or investment opportunities, successfully complete the transactions, some of which may be large and complex, and manage post-closing issues such as integration of the acquired company or employees. We may not be able to continue to identify or complete appealing acquisition or investment opportunities given the intense competition for these transactions. We are also subject to certain covenants in our debt agreements which place limits on our ability to complete acquisitions and investments. Even if we identify and complete suitable corporate transactions, we may not be able to successfully address any integration challenges in a timely manner, or at all. Failing to successfully integrate or realign our business to take advantage of efficiencies or reduce redundancies of an acquisition may result in not realizing all or any of the anticipated benefits of the acquisition. In addition, failing to achieve the financial model projections for an acquisition or changes in technology development and related roadmaps following an acquisition may result in the incurrence of impairment charges and other expenses, both of which could adversely impact our results of operations or financial condition. Acquisitions and investments may also result in the issuance of equity securities that may be dilutive to our shareholders and the issuance of additional indebtedness which would put additional pressure on liquidity. Furthermore, we may agree to provide continuing service obligations or enter into other agreements in order to obtain certain regulatory approvals of our corporate transactions, and failure to satisfy these additional obligations could result in our failing to obtain regulatory approvals or the imposition of additional obligations on us, any of which could adversely affect our business, financial condition and results of operations.

If we are unable to successfully integrate the systems and operations of HGST, our business and financial condition may be adversely affected.

In connection with obtaining the regulatory approvals required to complete the acquisition of HGST, we agreed to certain conditions required by the Ministry of Commerce of the People's Republic of China ("MOFCOM"), including adopting measures to keep HGST as an independent competitor until MOFCOM agreed otherwise. In October 2015, MOFCOM announced that it had made a decision allowing us to integrate substantial portions of our HGST and WD subsidiaries, provided that we were obligated to continue offering both HGST and WD product brands and maintaining separate sales teams to separately offer products under the WD and HGST brands for two years from the date of the decision. As of December 29, 2017, the integration of the substantial portions of our HGST and WD subsidiaries that we were permitted to integrate as a result of MOFCOM's 2015 decision (including corporate functions, R&D, recording heads and magnetic media operations, engineering and manufacturing), were largely completed. However, certain financial and operational systems have not yet been integrated. The MOFCOM restrictions related to our HGST and WD product brands and sales teams expired in October 2017, which enabled us to begin integrating our sales teams and brands. While we combine our HGST and WD product brands and sales teams and integrate certain financial and operating systems, we will continue to incur additional costs. These additional costs, along with any delay in the integration process or higher than expected integration costs or other integration issues, could adversely affect our business and financial condition.

The loss of our key executive management, staff and skilled employees, the inability to hire and integrate new employees or decisions to realign our business could negatively impact our business prospects.

Our success depends upon the continued contributions of our key management, staff and skilled employees, many of whom would be extremely difficult to replace. Global competition for skilled employees in the data storage industry is intense and, as we attempt to move to a position of technology leadership in the storage industry, our business success becomes increasingly dependent on our ability to retain our key staff and skilled employees, to attract, integrate and retain new skilled employees, including employees from acquisitions, and to make decisions to realign our business to take advantage of efficiencies or reduce redundancies. Volatility or lack of positive performance in our stock price and the overall markets may adversely affect our ability to retain key staff or skilled employees who have received equity compensation. Additionally, because a substantial portion of our key employees' compensation is placed "at risk" and linked to the performance of our business, when our operating results are negatively impacted, we are at a competitive disadvantage for retaining and hiring key management, staff and skilled employees versus other companies that pay a relatively higher fixed salary. If we lose our existing key management, staff or skilled employees, or are unable to hire and integrate new key management, staff or skilled employees, or if we fail to implement succession plans for our key management or staff, our operating results would likely be harmed. Furthermore, if we do not realize the anticipated benefits of our intended realignment after we make decisions regarding our personnel and implement our realignment plans, our operating results could be adversely affected.

From time to time we may become subject to income tax examinations or similar proceedings, and as a result we may incur additional costs and expenses or owe additional taxes, interest and penalties that may negatively impact our operating results.

We are subject to income taxes in the U.S. and certain foreign jurisdictions, and our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, as we have previously disclosed, we are under examination by the Internal Revenue Service for certain fiscal years and in connection with that examination, we received a Revenue Agent's Report seeking certain adjustments to income as disclosed in Part I, Item 1, Note 10, *Income Tax Expense (Benefit)*, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Although we believe our tax positions are properly supported, the final timing and resolution of any tax examinations are subject to significant uncertainty and could result in our having to pay amounts to the applicable tax authority in order to resolve examination of our tax positions, which could result in an increase or decrease of our current estimate of unrecognized tax benefits and may negatively impact our financial position, results of operations or cash flows.

We are subject to risks associated with loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays that expire in whole or in part from time to time, or may be terminated if certain conditions are not met. Although many of these holidays may be extended when certain conditions are met, we may not be able to meet such conditions. If the tax holidays are not extended, or if we fail to satisfy the conditions of the reduced tax rate, then our effective tax rate could increase in the future. In addition, any actions by us to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes may impact our effective tax rate.

Changes in tax laws could increase our worldwide tax rate and materially affect our financial position and results of operations.

On December 22, 2017, the President of the United States of America signed the Tax Cuts and Jobs Act (the "2017 Act"), which includes a broad range of tax reform proposals affecting businesses, including a reduction in the U.S. federal corporate tax rate from 35% to 21%, a one-time mandatory deemed repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred, and a new minimum tax on certain foreign earnings. The 2017 Act significantly impacts our effective tax rate for fiscal year 2018 as a result of the deemed repatriation tax, and may impact several other elements of our operating model. In future years, certain additional provisions of the 2017 Act, such as a minimum tax on foreign earnings, will also apply to the Company and, as a result, the Company generally expects its effective tax rate to increase from the rate expected for fiscal year 2018 (excluding the mandatory deemed repatriation tax and the re-measurement of deferred taxes). Taxes due over a period of time as a result of the new tax law could be accelerated upon certain triggering events, including failure to pay such taxes when due. The new law makes broad and complex changes to the U.S. tax code and we expect to see future regulatory, administrative or legislative guidance. We are analyzing the 2017 Act to determine the full impact of the new tax law, and to the extent any future guidance differs from our preliminary interpretation of the law, it could have a material effect on our financial position and results of operations.

In addition, many countries in the European Union and around the globe have adopted and/or proposed changes to current tax laws. Further, organizations such as the Organization for Economic Cooperation and Development, have published action plans that, if adopted by countries where we do business, could increase our tax obligations in these countries. Due to the large scale of our U.S. and international business activities, many of these enacted and proposed changes to the taxation of our activities could increase our worldwide effective tax rate and harm our financial position and results of operations.

We and certain of our officers are at times involved in litigation, investigations and governmental proceedings, which may be costly, may divert the efforts of our key personnel and could result in adverse court rulings, fines or penalties, which could materially harm our business.

We are involved in litigation, including cases involving our IP rights and those of others, antitrust and commercial matters, putative securities class action suits and other actions. We are the plaintiff in some of these actions and the defendant in others. Some of the actions seek injunctive relief, including injunctions against the sale of our products, and substantial monetary damages, which if granted or awarded, could materially harm our business, financial condition and operating results. From time to time, we may also be the subject of inquiries, requests for information, investigations and actions by government and regulatory agencies regarding our businesses. Any such matters could result in material adverse consequences to our results of operations, financial condition or ability to conduct our business, including fines, penalties or restrictions on our business activities.

Litigation is subject to inherent risks and uncertainties that may cause actual results to differ materially from our expectations. In the event of an adverse outcome in any litigation, investigation or governmental proceeding, we could be required to pay substantial damages, fines or penalties and cease certain practices or activities, including the manufacture, use and sale of products. With or without merit, such matters can be complex, can extend for a protracted period of time, can be very expensive and the expense can be unpredictable. Litigation initiated by us could also result in counter-claims against us, which could increase the costs associated with the litigation and result in our payment of damages or other judgments against us. In addition, litigation, investigations or governmental proceedings and any related publicity, may divert the efforts and attention of some of our key personnel and may also harm the market prices of our securities.

We may be obligated to indemnify our current or former directors or employees, or former directors or employees of companies that we have acquired, in connection with litigation, investigations or governmental proceedings. These liabilities could be substantial and may include, among other things: the costs of defending lawsuits against these individuals; the cost of defending shareholder derivative suits; the cost of governmental, law enforcement or regulatory investigations or proceedings; civil or criminal fines and penalties; legal and other expenses; and expenses associated with the remedial measures, if any, which may be imposed.

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, sharing, and security of third-party data including personal data, and our failure to comply with these laws, rules and regulations could subject us to proceedings by governmental entities or others and cause us to incur penalties, significant legal liability, or loss of customers, loss of revenue, and reputational harm.

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, and security of third-party data including data that relates to or identifies an individual person. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, and among us, our subsidiaries and other parties with which we have commercial relations. Our possession and use of third-party data, including personal data and employee data in conducting our business subjects us to legal and regulatory burdens that may require us to notify vendors, customers or employees or other parties with which we have commercial relations of a data security breach and to respond to regulatory inquiries and to enforcement proceedings. Global privacy and data protection legislation, enforcement, and policy activity in this area are rapidly expanding and evolving, and may be inconsistent from jurisdiction to jurisdiction. Compliance requirements and even our inadvertent failure to comply with applicable laws may cause us to incur substantial costs, subject us to proceedings by governmental entities or others, and cause us to incur penalties or other significant legal liability, or lead us to change our business practices.

The nature of our industry and its reliance on IP and other proprietary information subjects us and our suppliers, customers and partners to the risk of significant litigation.

The data storage industry has been characterized by significant litigation. This includes litigation relating to patent and other IP rights, product liability claims and other types of litigation. We have historically been involved in frequent disputes regarding patent and other IP rights, and we have in the past received, and we may in the future receive, communications from third parties asserting that certain of our products, processes or technologies infringe upon their patent rights, copyrights, trademark rights or other IP rights. We may also receive claims of potential infringement if we attempt to license IP to others. IP risks increase when we enter into new markets where we have little or no IP protection as a defense against litigation. The complexity of the technology involved and the uncertainty of IP litigation increase the IP risks we face. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of litigation are inherently uncertain and may result in adverse rulings or decisions. We may be subject to injunctions, enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on our business, financial condition or operating results.

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

Moreover, from time to time, we agree to indemnify certain of our suppliers and customers for alleged IP infringement. The scope of such indemnity varies but may include indemnification for direct and consequential damages and expenses, including attorneys' fees. We may be engaged in litigation as a result of these indemnification obligations. Third party claims for patent infringement are excluded from coverage under our insurance policies. A future obligation to indemnify our customers or suppliers may harm our business, financial condition and operating results.

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

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable IP such as our process technology. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. There can be no assurance that our existing patents will continue to be held valid, if challenged, or that they will have sufficient scope or strength to protect us. It is also possible that competitors or other unauthorized third parties may obtain, copy, use or disclose, illegally or otherwise, our proprietary technologies and processes, despite our efforts to protect our proprietary technologies and processes. If a competitor is able to reproduce or otherwise capitalize on our technology despite the safeguards we have in place, it may be difficult, expensive or impossible for us to obtain necessary legal protection. There are entities whom we believe may infringe our IP. Enforcement of our rights often requires litigation. If we bring a patent infringement action and are not successful, our competitors would be able to use similar technology to compete with us. Moreover, the defendant in such an action may successfully countersue us for infringement of their patents or assert a counterclaim that our patents are invalid or unenforceable. Also, the laws of some foreign countries may not protect our IP to the same extent as do U.S. laws. In addition to patent protection of IP rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely upon employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered IP rights may be challenged or exploited by others in the industry, which could harm our operating results.

The success of our branded products depends in part on the positive image that consumers have of our brands. We believe the popularity of our brands makes them a target of counterfeiting or imitation, with third parties attempting to pass off counterfeit products as our products. Any occurrence of counterfeiting, imitation or confusion with our brands could adversely affect our reputation and impair the value of our brands, which in turn could negatively impact sales of our branded products, our share and our gross margin, as well as increase our administrative costs related to brand protection and counterfeit detection and prosecution.

The costs of compliance with state, federal and international legal and regulatory requirements, such as environmental, labor, trade, health, safety, anti-corruption and tax regulations, customers' standards of corporate citizenship, and industry and coalition standards, such as those established by the Electronics Industry Citizenship Coalition ("EICC"), could cause an increase in our operating costs.

We are subject to, and may become subject to additional, state, federal and international laws and regulations governing our environmental, labor, trade, health, safety, anti-corruption and tax practices. These laws and regulations, particularly those applicable to our international operations, are or may be complex, extensive and subject to change. We will need to ensure that we and our suppliers and partners timely comply with such laws and regulations, which may result in an increase in our operating costs. Legislation has been, and may in the future be, enacted in locations where we manufacture or sell our products. In addition, climate change and financial reform legislation is a significant topic of discussion and has generated and may continue to generate federal, international or other regulatory responses in the near future. If we or our suppliers or partners fail to timely comply with applicable legislation, our customers may refuse to purchase our products or we may face increased operating costs as a result of taxes, fines or penalties, or legal liability and reputational damage, which would have a materially adverse effect on our business, operating results and financial condition.

In connection with our compliance with environmental laws and regulations, as well as our compliance with industry and coalition environmental initiatives, such as those established by the EICC, the standards of business conduct required by some of our customers, and our commitment to sound corporate citizenship in all aspects of our business, we could incur substantial compliance and operating costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws or noncompliant with these initiatives or standards of conduct, we could be subject to governmental fines, liability to our customers and damage to our reputation and corporate brand which could cause our financial condition and operating results to suffer.

Conflict minerals regulations may cause us to incur additional expenses and could limit the supply and increase the cost of certain components and metals contained in our products.

We are subject to the SEC’s diligence and disclosure requirements regarding the use and source of gold, tantalum, tin and tungsten, commonly referred to as 3TG or conflict minerals, which are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. As a result of these rules, we report annually regarding whether such 3TG originated from the Democratic Republic of the Congo or an adjoining country. These rules could affect our ability to source components that contain 3TG, or 3TG generally, at acceptable prices and could impact the availability of such components or 3TG, since there may be only a limited number of suppliers of “conflict free” 3TG. Our customers, including our OEM customers, may require, and some of our customers have notified us that they require, that our products contain only conflict free 3TG, and our revenues and margins may be harmed if we are unable to meet this requirement at a reasonable price, or at all, or are unable to pass through any increased costs associated with meeting this requirement. Additionally, we may suffer reputational harm with our customers and other stakeholders and challenges from government regulators if our products are not conflict free or if we are unable to sufficiently verify the origins of the 3TG contained in our products through the due diligence procedures that we implement. We could incur significant costs to the extent that we are required to make changes to products, processes, or sources of supply due to the foregoing requirements or pressures. Conflict minerals legislation in Europe, Canada or any other jurisdiction, could increase these risks.

Violation of applicable laws, including labor or environmental laws, and certain other practices by our suppliers, customers or partners could harm our business.

We expect our suppliers, customers and partners to operate in compliance with applicable laws and regulations, including labor and environmental laws, and to otherwise meet our required standards of conduct. While our internal operating guidelines promote ethical business practices, we do not control our suppliers, customers, partners or their labor or environmental practices. The violation of labor, environmental or other laws by any of them, or divergence of their business practices from those generally accepted as ethical, could harm our business by:

- interrupting or otherwise disrupting the shipment of our product components;
- damaging our reputation;
- forcing us to find alternate component sources;
- reducing demand for our products (for example, through a consumer boycott); or
- exposing us to potential liability for our suppliers’, customers’ or partners’ wrongdoings.

Flash Ventures’ equipment lease agreements contain covenants and other cancellation events, and cancellation of the leases would harm our business, operating results and financial condition.

Flash Ventures sells and leases back from a consortium of financial institutions (“lessors”) a portion of its equipment and Flash Ventures has entered into equipment lease agreements, most of which we and Toshiba each guarantee half of the total outstanding obligations and some of which we guarantee in full for our share of the Flash Ventures investment. As of December 29, 2017, the portion of outstanding Flash Ventures’ lease obligations covered by our guarantees totaled approximately \$941 million, based upon the Japanese yen to U.S. dollar exchange rate at December 29, 2017. The equipment lease agreements contain covenants and cancellation events that are customary for Japanese lease facilities and that relate to Flash Ventures and each of the guarantors. Cancellation events relating to the guarantors include, among other things, an assignment of all or a substantial part of a guarantor’s business, a bankruptcy event involving a guarantor and acceleration of other monetary debts of a guarantor above a specified threshold.

The breach of a covenant or the occurrence of another cancellation event could result in an acceleration of the Flash Ventures’ lease obligations. If a cancellation event were to occur, Flash Ventures would be required to negotiate a resolution with the lessors, as well as other parties to the lease transactions, to avoid cancellation and acceleration of the lease obligations. Such resolution could include, among other things, supplementary security to be supplied by us, as guarantor, increased interest rates or waiver fees. If a cancellation event occurs and we fail to reach a resolution, we may be required to pay all or a portion of the outstanding lease obligations covered by our guarantees, which would significantly reduce our cash position and may force us to seek additional financing, which may not be available on terms acceptable to us, if at all.

Any decisions to reduce or discontinue paying cash dividends to our shareholders could cause the market price for our common stock to decline.

We may modify, suspend or cancel our cash dividend policy in any manner and at any time. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline. Moreover, in the event our payment of quarterly cash dividends are reduced or discontinued, our failure or inability to resume paying cash dividends at historical levels could cause the market price of our common stock to decline.

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

Because we manufacture and sell our products abroad, our revenue, cost of goods sold, margins, operating costs and cash flows are impacted by fluctuations in foreign currency exchange rates. If the U.S. dollar exhibits sustained weakness against most foreign currencies, the U.S. dollar equivalents of unhedged manufacturing costs could increase because a significant portion of our production costs are foreign-currency denominated. Conversely, there would not be an offsetting impact to revenues since revenues are substantially U.S. dollar denominated. Additionally, we negotiate and procure some of our component requirements in U.S. dollars from non-U.S. based vendors. If the U.S. dollar weakens against other foreign currencies, some of our component suppliers may increase the price they charge for their components in order to maintain an equivalent profit margin. In addition, our purchases of NAND-flash memory from Flash Ventures and our investment in Flash Ventures are denominated in Japanese yen. If the Japanese yen appreciates against the U.S. dollar, our cost of purchasing NAND-flash memory wafers and the cost to us of future capital funding of Flash Ventures would increase, which could negatively impact our operating results. If any of these events occur, they would have a negative impact on our operating results.

Prices for our products are substantially U.S. dollar denominated, even when sold to customers that are located outside the U.S. Therefore, as a substantial portion of our sales are from countries outside the U.S., fluctuations in currency exchange rates, most notably the strengthening of the U.S. dollar against other foreign currencies, contribute to variations in sales of products in impacted jurisdictions and could adversely impact demand and revenue growth. In addition, currency variations can adversely affect margins on sales of our products in countries outside the U.S.

We attempt to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, foreign exchange contracts. However, these contracts do not cover our full exposure, and can be canceled by the counterparty if currency controls are put in place. Thus, our decisions and hedging strategy with respect to currency risks may not be successful and harm our operating results. Further, the ability to enter into foreign exchange contracts with financial institutions is based upon our available credit from such institutions and compliance with covenants and other restrictions. Operating losses, third party downgrades of our credit rating or instability in the worldwide financial markets could impact our ability to effectively manage our foreign currency exchange rate risk. Hedging also exposes us to the credit risk of our counterparty financial institutions.

Increases in our customers' credit risk could result in credit losses and term extensions under existing contracts with customers with credit losses could result in an increase in our operating costs.

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

Our operating results fluctuate, sometimes significantly, from period to period due to many factors, which may result in a significant decline in our stock price.

Our quarterly operating results may be subject to significant fluctuations as a result of a number of other factors including:

- weakness in demand for one or more product categories;

- the timing of orders from and shipment of products to major customers, loss of major customers;
- our product mix;
- reductions in the ASPs of our products and lower margins;
- excess output, capacity or inventory, resulting in lower ASPs, financial charges or impairments, or insufficient output, capacity or inventory, resulting in lost revenue opportunities;
- inability to successfully transition to 3D NAND or other technology developments, or other failure to reduce product costs to keep pace with reduction in ASPs;
- manufacturing delays or interruptions;
- delays in design wins or customer qualifications, acceptance by customers of competing products in lieu of our products;
- success of our partnerships and joint ventures, in particular the volume, timing and cost of wafer production at Flash Ventures, and our success in managing the relationships with our strategic partners;
- inability to realize the potential benefits of our acquisitions and the success of our integration efforts;
- ability to penetrate new markets for our storage solutions;
- variations in the cost of and lead times for components for our products, disruptions of our supply chain;
- limited availability of components that we obtain from a single or a limited number of suppliers;
- seasonal and other fluctuations in demand often due to technological advances;
- increase in costs due to warranty claims;
- higher costs as a result of currency exchange rate fluctuations; and
- availability and rates of transportation.

We often ship a high percentage of our total quarterly sales in the third month of the quarter, which makes it difficult for us to forecast our financial results before the end of the quarter. As a result of the above or other factors, our forecast of operating results for the quarter may differ materially from our actual financial results. If our results of operations fail to meet the expectations of analysts or investors, it could cause an immediate and significant decline in our stock price.

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting, and actual results may differ significantly from our estimates and assumptions.

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

- price protection adjustments and other sales promotions and allowances on products sold to retailers, resellers and distributors;
- inventory adjustments for write-down of inventories to lower of cost or market value (net realizable value);
- testing of goodwill and other long-lived assets for impairment;
- accruals for product returns;

- accruals for litigation and other contingencies
- liabilities for unrecognized tax benefits; and
- provisional estimates related to tax reform.

In addition, changes in existing accounting or taxation rules or practices, new accounting pronouncements or taxation rules, or varying interpretations of current accounting pronouncements or taxation practice could have an adverse effect on our results of operations and financial condition.

The market price of our common stock is volatile.

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

- actual or anticipated fluctuations in our operating results, including those resulting from the seasonality of our business;
- perceptions about our strategic relationships and joint ventures, access to supply of NAND-flash memory, new technologies and technology transitions;
- announcements of technological innovations by us or our competitors, which may decrease the volume and profitability of sales of our existing products and increase the risk of inventory obsolescence;
- new products introduced by us or our competitors;
- strategic actions by us or competitors, such as acquisitions and restructurings;
- periods of severe pricing pressures due to oversupply or price erosion resulting from competitive pressures or industry consolidation;
- developments with respect to patents or proprietary rights, and any litigation;
- proposed or adopted regulatory changes or developments or anticipated or pending investigations, proceedings or litigation that involve or affect us or our competitors;
- conditions and trends in the hard drive, solid-state storage, flash memory, computer, mobile, data and content management, storage and communication industries;
- contraction in our operating results or growth rates that are lower than our previous high growth-rate periods;
- failure to meet analysts' revenue or earnings estimates or changes in financial estimates or publication of research reports and recommendations by financial analysts relating specifically to us or the storage industry in general;
- announcements relating to dividends and share repurchases; and
- macroeconomic conditions that affect the market generally and, in particular, developments related to market conditions for our industry.

In addition, the sale of substantial amounts of shares of our common stock, or the perception that these sales may occur, could adversely affect the market price of our common stock. Further, the stock market is subject to fluctuations in the stock prices and trading volumes that affect the market prices of the stock of public companies, including us. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of shares of our common stock. For example, expectations concerning general economic conditions may cause the stock market to experience extreme price and volume fluctuations from time to time that particularly affect the stock prices of many high technology companies. These fluctuations may be unrelated to the operating performance of the companies.

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

Our cash balances and investment portfolio are subject to various risks, any of which could adversely impact our financial position.

Given the international footprint of our business, we have both domestic and international cash balances and investments. We maintain an investment portfolio of various holdings, security types, and maturities. These investments are subject to general credit, liquidity, market, political, sovereign and interest rate risks, which may be exacerbated by unusual events that affect global financial markets. A material part of our investment portfolio consists of investment grade corporate securities, bank deposits, asset backed securities and U.S. government and agency securities. If global credit and equity markets experience prolonged periods of decline, or if there is a downgrade of the U.S. government credit rating due to an actual or threatened default on government debt, our investment portfolio may be adversely impacted and we could determine that our investments may experience an other-than-temporary decline in fair value, requiring impairment charges that could adversely affect our financial results. A failure of any of these financial institutions in which deposits exceed Federal Deposit Insurance Corporation ("FDIC") limits could also have an adverse impact on our financial position.

In addition, if we are unable to generate sufficient cash flows from operations to repay our indebtedness, fund acquisitions, pay dividends, or repurchase shares of our common stock, we may choose or be required to increase our borrowings, if available, or to repatriate funds to the U.S. at an additional tax cost. We must comply with regulations regarding the conversion and distribution of funds earned in the local currencies of various countries. If we cannot comply with these or other applicable regulations, we may face increased difficulties in using cash generated in these countries.

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

Our most recent evaluation resulted in our conclusion that as of June 30, 2017, in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, our internal control over financial reporting was effective. If our internal control over financial reporting is found to be ineffective or if we identify a material weakness in our financial reporting in future periods, investors may lose confidence in the reliability of our financial statements, we may be required to restate our financial results, our access to capital markets may be limited, and we may be subject to sanctions from regulatory agencies and The NASDAQ Global Select Market, each of which may adversely affect our stock price.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

The exhibits listed in the Exhibit Index below are filed with, or incorporated by reference in, this Quarterly Report on Form 10-Q, as specified in the Exhibit List, from exhibits previously filed with the Securities and Exchange Commission. Certain agreements listed in the Exhibit Index that we have filed or incorporated by reference may contain representations and warranties by us or our subsidiaries. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosures, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe the actual state of affairs at the date hereof and should not be relied upon.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of October 21, 2015, among Western Digital Corporation, Schrader Acquisition Corporation and SanDisk Corporation (Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on October 26, 2015)±
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-08703) with the Securities and Exchange Commission on February 8, 2006)
3.2	Amended and Restated By-Laws of Western Digital Corporation, as amended effective as of February 2, 2017 (Filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (File No. 1-08703) with the Securities and Exchange Commission on February 7, 2017)
10.1	Western Digital Corporation 2017 Performance Incentive Plan (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on November 3, 2017)*
10.1.1	Form of Notice of Grant of Stock Option and Option Agreement – Executives, under the Western Digital Corporation 2017 Performance Incentive Plan†*
10.1.2	Form of Notice of Grant of Stock Option and Option Agreement – Non-Executives, under the Western Digital Corporation 2017 Performance Incentive Plan†*
10.1.3	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement – Executives, under the Western Digital Corporation 2017 Performance Incentive Plan†*
10.1.4	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement, under the Western Digital Corporation 2017 Performance Incentive Plan†*
10.1.5	Form of Notice of Grant of Performance Stock Units and Performance Stock Unit Award Agreement – Executives, under the Western Digital Corporation 2017 Performance Incentive Plan†*
10.2	Western Digital Corporation 2017 Performance Incentive Plan Non-Employee Director Restricted Stock Unit Grant Program, as amended November 1, 2017†*
10.3	Western Digital Corporation Summary of Compensation Arrangements for Named Executive Officers and Directors†*
10.4	Amendment No. 5, dated as of November 8, 2017, to the Loan Agreement dated as of April 29, 2016, by and among Western Digital Corporation, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, the lenders party thereto and the other loan parties thereto (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on November 8, 2017)
10.5	Amendment No. 6, dated as of November 29, 2017, to the Loan Agreement dated as of April 29, 2016, by and among Western Digital Corporation, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, the lenders party thereto and the other loan parties thereto (Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-08703) with the Securities and Exchange Commission on November 29, 2017)
10.6	FAL Commitment and Extension Agreement, dated as of December 12, 2017, by and among Western Digital Corporation, SanDisk LLC, SanDisk (Ireland) Limited and Toshiba Memory Corporation†#
10.7	Y6 Facility Agreement, dated as of December 12, 2017, by and among Western Digital Corporation, SanDisk LLC, SanDisk (Cayman) Limited, SanDisk (Ireland) Limited, SanDisk Flash B.V., Flash Partners, Ltd., Flash Alliance, Ltd., Flash Forward, Ltd. and Toshiba Memory Corporation†#
10.8	Confidential Settlement and Mutual Release Agreement, dated as of December 12, 2017, by and among Western Digital Corporation, SanDisk LLC, SanDisk (Cayman) Limited, SanDisk (Ireland) Limited, SanDisk Flash B.V., Toshiba Corporation and Toshiba Memory Corporation†#
10.9	Confidential Settlement and Mutual Release Agreement, dated as of December 12, 2017, by and among Western Digital Corporation, SanDisk LLC, SanDisk (Cayman) Limited, SanDisk (Ireland) Limited, SanDisk Flash B.V., Bain Capital Private Equity, L.P., BCPE Pangea Cayman, L.P., BCPE Pangea Cayman2, Ltd., Bain Capital Fund XII, L.P., Bain Capital Asia Fund III, L.P. and K.K. Pangea†#
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges†
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document†

101.SCH	XBRL Taxonomy Extension Schema Document†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document†

† Filed with this report.

** Furnished with this report.

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

± Certain schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplemental copies of any of the omitted schedules upon request by the Securities and Exchange Commission.

Pursuant to a request for confidential treatment, certain portions of this exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTERN DIGITAL CORPORATION

By: /s/ MARK P. LONG

Mark P. Long

President WD Capital, Chief Strategy Officer and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Dated: February 5, 2018

Western Digital Corporation
 ID: 33-0956711
 3355 Michelson Drive, Suite 100
 Irvine, CA 92612

Western Digital.

Notice of Grant of Stock Option and Option Agreement – Executives

Name	Option No.: #####
Address Line 1	Plan: 2017 Performance Incentive Plan
City, State Zip	ID: ####

Congratulations! Effective <<date>>, you have been granted a(n) <<option type>> to buy <<number>> shares of Western Digital Corporation stock at <<\$ option price>> per share. The option was granted under the 2017 Performance Incentive Plan (the "Plan").¹

Vesting:

<u>Shares¹</u>	<u>Vest Type</u>	<u>Full Vesting</u>	<u>Expiration Date²</u>
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Your option is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Options – Executives (the "Standard Terms"), and the Plan. By accepting the option, you are agreeing to the terms of the option as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your option. If you do not agree to the terms of your option, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of any of these documents, or if you would like to confirm that you have the most recent version, you may obtain another copy in the Company Library on the E*TRADE website. These documents are also available on the Western Digital Intranet site under Legal.

1. The number of shares subject to the option and the per-share exercise price of the option are subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).
2. The option is subject to early termination under Section 5 of the attached Standard Terms and Conditions for Stock Options.

STANDARD TERMS AND CONDITIONS FOR STOCK OPTIONS - EXECUTIVES
2017 Performance Incentive Plan

1. Option Subject to 2017 Performance Incentive Plan.

The option (the "Option") referred to in the attached Notice of Grant of Stock Option and Option Agreement (the "Notice") was issued under Western Digital Corporation's (the "Corporation's") 2017 Performance Incentive Plan (the "Plan"). The Option is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Options - Executives (these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The holder of the Option is referred to herein as the "Participant." Capitalized terms not defined herein have the meanings set forth in the Plan.

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

2. Option Agreement.

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

3. Type of Stock Option

The Notice indicates whether the Option is intended to qualify as an incentive stock option (an "ISO") under the Internal Revenue Code of 1986, as amended (the "Code"), or is a nonqualified stock option (an option that is not an ISO). ISOs are subject to additional requirements under the Code as generally described in Section 5.1 of the Plan. If the aggregate fair market value of the shares with respect to which ISOs (whether granted under the Option or otherwise) first become exercisable by the Participant in any calendar year exceeds \$100,000, as measured on the applicable option grant dates and as determined in accordance with Code Section 422 and the regulations promulgated thereunder, the limitations of Section 5.1.2 of the Plan shall apply and to such extent the Option will be rendered a nonqualified stock option.

4. Vesting

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth in the Notice. Each vesting installment of the Option shall be a fixed installment covering the number of shares, and vesting on the fixed vesting date, set forth in the applicable line of the Notice under "Vesting." In each case, the Option is subject to earlier termination in accordance with Section 5.

The Option may be exercised only to the extent it is vested and exercisable. To the extent that the Option is vested and exercisable, the Participant has the right to exercise the Option (to the extent not previously exercised), and such

right shall continue, until the expiration or earlier termination of the Option as provided in Section 5. Fractional share interests shall be disregarded, but may be cumulated.

Except as expressly provided in Sections 6 and 7 below, the vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Except as expressly provided in Sections 6 and 7 below, employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

5. Expiration of Option

The Option shall expire and the Participant shall have no further rights with respect thereto upon the earliest to occur of (a) the termination of the Option as provided in Section 7 below, (b) the termination of the Option as provided in Section 7.2 of the Plan, or (c) the Expiration Date set forth in the Notice. The Option may not be exercised at any time after a termination or expiration of the Option.

6. Change in Control Event

Upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event in which the Option is to terminate (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Option and the Option will not otherwise continue in accordance with its terms in the circumstances), the portion of the Option that is outstanding and unvested immediately prior to the Change in Control Event shall vest and become exercisable. In the event the Option is to be terminated in connection with a Change in Control Event, the Participant shall, unless the Administrator has made a provision for the settlement of the Option, be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise the outstanding portion of the Option in accordance with its terms (after giving effect to the acceleration of vesting) before the termination of the Option in such circumstances (except that in no case shall more than ten (10) days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event).

7. Termination of Employment, Total Disability or Death

The Option shall be exercisable by the Participant (or his or her permitted successor in interest) following the Participant's termination of employment only to the extent provided below in this Section 7. Except as provided in Section 7(f) below, the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "Severance Date." In each case described below, the Option shall be subject to earlier termination as contemplated by Section 5.

(a) Termination of Employment Generally. Except as expressly provided below in this Section 7, in the event the Participant ceases to be an employee of the Corporation or any of its Subsidiaries for any reason, the Option shall, to the extent that it is not vested and exercisable on the Participant's Severance Date, terminate effective immediately following the Participant's Severance Date and, to the extent that the Option is vested and exercisable by the Participant on the Participant's Severance Date, it may be exercised by the Participant at any time within three months following the Participant's Severance Date. The Option, to the extent exercisable for the three-month period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-month period.

(b) Total Disability. In the event that the Participant ceases to be an employee of the Corporation or any of its Subsidiaries at a time when the Participant is Totally Disabled and is not eligible to Retire, the Option shall, to the extent that it is not vested and exercisable on the Participant's Severance Date, terminate effective immediately following the Participant's Severance Date. In such circumstances, or in the event that the Participant incurs such a Total Disability within not more than three months of the Participant's Severance Date if the termination of the

Participant's employment was for any reason other than a termination of employment by the Corporation or one of its Subsidiaries for Cause, the Option may, to the extent the Option was vested and exercisable by the Participant on the Participant's Severance Date, be exercised by the Participant (or, if the Participant is then incapacitated, by the Participant's personal representatives, heirs, or legatees) at any time during the one-year period following the Participant's Severance Date. The Option, to the extent exercisable for the one-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the one-year period. For purposes of the Option, "Total Disability" (which term shall include "Totally Disabled") means a "permanent and total disability" within the meaning of Section 22(e)(3) of the Code.

(c) Death. If the Participant dies while he or she is an employee of the Corporation or any of its Subsidiaries, the Option (to the extent outstanding and not previously vested and exercisable) shall vest and become exercisable on the Participant's Severance Date and shall continue to be exercisable by the Participant's personal representatives, heirs or legatees, as applicable, at any time during the three-year period following the Participant's Severance Date. The Option, to the extent exercisable for the three-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

(d) Retirement. If the Participant Retires from the Corporation or one of its Subsidiaries, the Option (to the extent outstanding and not previously vested and exercisable) shall vest and become exercisable on the Participant's Severance Date and shall continue to be exercisable by the Participant (or if the Participant is then deceased, by the Participant's personal representatives, heirs or legatees, as applicable) at any time during the three-year period following the Participant's Severance Date. The Option, to the extent exercisable for the three-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period. Notwithstanding the foregoing, in the event a Retired Participant provides services to a competitor of the Corporation or any of its Subsidiaries as an employee, consultant, director, officer, representative, independent contractor or otherwise, or otherwise competes with the business of the Corporation or its Subsidiaries (in each case as determined by the Administrator its sole discretion), the Option, to the extent not previously exercised, shall immediately terminate. In addition, in such event the Corporation shall have the right to recover any profits realized by such Retired Participant as a result of any exercise of the Option during the six-month period prior to the date such Retired Participant commenced providing such services to a competitor. For this purpose, the Participant shall be deemed to have "Retired" (which term shall include "Retirement," "Retire" and "Retires") if the Participant retires from employment with the Corporation or one of its Subsidiaries for any reason other than Cause after satisfying all of the following at the time of such retirement: (i) the Participant is at least 65 years of age, (ii) the Participant's age plus total years of continuous service with the Corporation or any of its Subsidiaries (as determined by the Administrator in its sole discretion) totals at least 75, and (iii) the Participant has five (5) or more years of continuous service with the Corporation or any of its Subsidiaries (as determined by the Administrator in its sole discretion) ending on the date of such retirement. For purposes of calculating "age plus total years of continuous service" under clause (ii) above, fractional years shall be disregarded but may be cumulated (so that, by way of example only, a Participant who is age 65 and 6 months with 9 years and 6 months of continuous service would satisfy the requirements of clause (ii), while a Participant who is age 65 and 6 months with 9 years and 5 months of continuous service would not satisfy the requirements of clause (ii)). For purposes of calculating the Participant's "years of continuous service" under clause (ii) or clause (iii) above, in no event shall the Participant accrue more than one year of service with respect to any period of twelve consecutive months (that is, concurrent employment by both the Corporation and one or more of its Subsidiaries, or by multiple Subsidiaries, for a month shall not be counted as more than one month of service).

(e) Termination for Cause. Notwithstanding the foregoing provisions of this Section 7, if the Participant's employment with the Corporation or any of its Subsidiaries is terminated by the Corporation or one of its Subsidiaries for Cause, the Option (whether or not all or any portion of such Option is then vested and exercisable) shall immediately terminate effective immediately following the Participant's Severance Date.

For purposes of this Section 7 and as to any termination of employment or services that occurs prior to the occurrence of a Change in Control Event, the term "Cause" shall mean the occurrence or existence of any of the

following with respect to the Participant, as determined by the Administrator or its delegate or delegates in its or their sole discretion:

- (i) the Participant's conviction by, or entry of a plea of guilty or *nolo contendere* in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;
- (ii) whether prior or subsequent to the date hereof, the Participant's willful engaging in dishonest or fraudulent actions or omissions;
- (iii) the Participant's failure or refusal to perform his or her duties as reasonably required by his or her employer;
- (iv) negligence, insubordination, violation by the Participant of any duty (loyalty or otherwise) owed to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates, or any other misconduct on the part of the Participant;
- (v) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Administrator's (or its delegate's or delegates') reasonable determination interferes with the Participant's service as an officer or employee of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (vi) sexual harassment by the Participant that has been reasonably substantiated and investigated;
- (vii) involvement in activities representing conflicts of interest with the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (viii) improper disclosure of confidential information;
- (ix) conduct endangering, or likely to endanger, the health or safety of another employee;
- (x) falsifying or misrepresenting information on the records of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (xi) the Participant's physical destruction or theft of substantial property or assets of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates; or
- (xii) breach of any policy of, or agreement with, the Corporation, one or more of its Subsidiaries, or any of their respective affiliates applicable to the Participant or to which the Participant is otherwise bound.

For purposes of this Section 7 and as to any termination of employment or services that occurs upon or after the occurrence of a Change in Control Event, the term "Cause" shall mean the occurrence or existence of any of the following with respect to the Participant, as determined by a majority of the disinterested directors of the Board:

- (A) the Participant's conviction by, or entry of a plea of guilty or *nolo contendere* in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;
- (B) whether prior or subsequent to the date hereof, the Participant's willful engaging in dishonest or fraudulent actions or omissions which results directly or indirectly in any demonstrable material financial or economic harm to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;

(C) the Participant's failure or refusal to perform his or her duties as reasonably required by his or her employer, provided that the Participant shall have first received written notice from the employer stating with specificity the nature of such failure or refusal and affording the Participant at least five (5) days to correct the act or omission complained of;

(D) gross negligence, insubordination, material violation by the Participant of any duty of loyalty to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates, or any other material misconduct on the part of the Participant, provided that the Participant shall have first received written notice from the Corporation stating with specificity the nature of such action or violation and affording the Participant at least five (5) days to correct such action or violation;

(E) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Board's reasonable determination interferes with the Participant's service as an officer or employee of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;

(F) sexual harassment by the Participant that has been reasonably substantiated and investigated;

(G) involvement in activities representing conflicts of interest with the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;

(H) improper disclosure of confidential information;

(I) conduct endangering, or likely to endanger, the health or safety of another employee;

(J) falsifying or misrepresenting information on the records of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates; or

(K) the Participant's physical destruction or theft of substantial property or assets of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates.

(f) Termination of Employment in Connection with a Change in Control Event. In the event the Participant ceases to be employed by the Corporation or any of its Subsidiaries as a result of either a termination of employment by the Corporation or one of its Subsidiaries without Cause or the resignation of the Participant for "Good Reason" (as defined below), in either case upon or within the one (1) year period following the occurrence of a Change in Control Event and the Participant is not eligible to Retire at the time of such termination (i.e., Section 7(d) does not apply), the Option (to the extent outstanding and not previously vested and exercisable) shall vest and become exercisable on the Participant's Severance Date and shall continue to be exercisable by the Participant at any time within three months following the Participant's Severance Date. The Option, to the extent exercisable for the three-month period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-month period.

For purposes of this Section 7, the term "Good Reason" shall mean any of the following without the Participant's express written consent:

(i) a material diminution in the Participant's authority, duties or responsibilities in effect immediately prior to the Change in Control Event;

(ii) a material diminution by the Employer (as defined below) in the Participant's base compensation in effect immediately prior to a Change in Control Event;

(iii) any material breach by the Corporation or the Employer of any right that the Participant has under a written severance plan of the Corporation or the Employer in which the Participant participates or by the Corporation or the Employer of any written employment agreement either of them may be a party to with the Participant; or

(iv) the requirement by the Employer that the Participant's principal place of employment be relocated more than fifty (50) miles from his or her place of employment immediately prior to a Change in Control Event;

provided, however, that any such condition shall not constitute "Good Reason" unless both (i) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (ii) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant's employment with the Corporation shall not be treated as a termination for "Good Reason" unless such termination occurs not more than one (1) year following the initial existence of the condition claimed to constitute "Good Reason."

For purposes of this Option Agreement, "Employer" shall mean the Corporation or its Subsidiary employing the Participant; provided however, that nothing contained herein shall prohibit the Corporation or another of its Subsidiaries fulfilling any obligation of the employing entity to the Participant and for such purposes will be deemed the act of the Employer.

(g) Continuation of Services. If the Participant's employment with the Corporation or any of its Subsidiaries terminates (regardless of the reason) but, immediately thereafter, the Participant continues to render services to the Corporation or any of its Subsidiaries as an employee, director or consultant, such Participant's Severance Date for purposes of the Option shall not be the date such Participant's employment terminates, but instead shall be the last day that the Participant either is employed by or actually renders services to the Corporation or any of its Subsidiaries. As provided in Section 6.1 of the Plan, the Administrator shall be the sole judge for purposes of the Option of whether the Participant continues to render services the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

(h) Exercise Period for ISOs. Notwithstanding any post-termination exercise period provided for herein or in the Plan, the Option will qualify as an ISO only if it is exercised within the applicable exercise periods for ISOs under, and meets all of the other requirements of, the Code. If the Option is not exercised within the applicable exercise periods for ISOs or does not meet such other requirements, the Option will be rendered a nonqualified stock option.

8. Exercise of Option

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

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time;
- payment in full for the purchase price (the per-share exercise price of the Option multiplied by the number of shares to be purchased) in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to approval by the Administrator and such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock either already owned by the Participant or otherwise deliverable hereunder in connection with such Option exercise), such shares in each case valued at their fair market value (as determined under the Plan) on the exercise date;

- any written statements or agreements required by the Administrator pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

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

The Option will qualify as an ISO only if it meets all of the applicable requirements of the Code.

9. Nontransferability

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

10. No Right to Employment

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

11. Rights as a Stockholder

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

12. Notices

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 12.

13. Arbitration

Any controversy arising out of or relating to this Option Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy or claim arising out of or related to the Option or the Participant’s employment or service, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, U.S.A., before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor (“JAMS”), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Option Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable U.S. state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator’s award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator’s fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney’s fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Option, the Participant consents to all of the terms and conditions of this Option Agreement (including, without limitation, this Section 13).

14. Governing Law

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

15. Severability

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

16. Entire Agreement

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

17. Section Headings

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

18. Clawback Policy

The Option is subject to the forfeiture and clawback provisions of Section 8.14(a) of the Plan.

19. No Advice Regarding Grant

The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 8.5 of the Plan, the Participant is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

Western Digital Corporation
ID: 33-0956711
3355 Michelson Drive, Suite 100
Irvine, CA 92612



Notice of Grant of Stock Option and Option Agreement – Non-Executives

Name	Option No.: #####
Address Line 1	Plan: 2017 Performance Incentive Plan
City, State Zip	ID: ####

Congratulations! Effective <<date>>, you have been granted a(n) <<option type>> to buy <<number>> shares of Western Digital Corporation stock at <<\$ option price>> per share. The option was granted under the 2017 Performance Incentive Plan (the "Plan").¹

Vesting:

<u>Shares¹</u>	<u>Vest Type</u>	<u>Full Vesting</u>	<u>Expiration Date²</u>
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Your option is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Options – Non-Executives (including any terms and conditions set forth in any appendices attached hereto) (collectively, the "Standard Terms"), and the Plan. By accepting the option, you are agreeing to the terms of the option as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your option. If you do not agree to the terms of your option, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of any of these documents, or if you would like to confirm that you have the most recent version, you may obtain another copy in the Company Library on the E*TRADE website. These documents are also available on the Western Digital Intranet site under Legal.

1. The number of shares subject to the option and the per-share exercise price of the option are subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).
2. The option is subject to early termination under Section 5 of the attached Standard Terms and Conditions for Stock Options.

Western Digital

Western Digital Corporation 3355 Michelson Drive, Suite 100
Irvine, California 92612 Telephone 949 672-7000

STANDARD TERMS AND CONDITIONS FOR STOCK OPTIONS - NON-EXECUTIVES 2017 Performance Incentive Plan

1. Option Subject to 2017 Performance Incentive Plan.

The option (the "Option") referred to in the attached Notice of Grant of Stock Option and Option Agreement (the "Notice") was issued under Western Digital Corporation's (the "Corporation's") 2017 Performance Incentive Plan (the "Plan"). The Option is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Options (including any terms and conditions set forth in any appendices attached hereto) (collectively, these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The holder of the Option is referred to herein as the "Participant." Capitalized terms not defined herein have the meanings set forth in the Plan.

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

2. Option Agreement.

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

3. Type of Stock Option

The Notice indicates whether the Option is intended to qualify as an incentive stock option (an "ISO") under the Internal Revenue Code of 1986, as amended (the "Code"), or is a nonqualified stock option (an option that is not an ISO). ISOs are subject to additional requirements under the Code as generally described in Section 5.1 of the Plan. If the aggregate fair market value of the shares with respect to which ISOs (whether granted under the Option or otherwise) first become exercisable by the Participant in any calendar year exceeds \$100,000, as measured on the applicable option grant dates and as determined in accordance with Code Section 422 and the regulations promulgated thereunder, the limitations of Section 5.1.2 of the Plan shall apply and to such extent the Option will be rendered a nonqualified stock option.

4. Vesting

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth in the Notice. Each vesting installment of the Option shall be a fixed installment covering the number of shares, and vesting on the fixed vesting date, set forth in the applicable line of the Notice under "Vesting." In each case, the Option is subject to earlier termination in accordance with Section 5.

The Option may be exercised only to the extent it is vested and exercisable. To the extent that the Option is vested and exercisable, the Participant has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option as provided in Section 5. Fractional share interests shall be disregarded, but may be cumulated.

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

5. Expiration of Option

The Option shall expire and the Participant shall have no further rights with respect thereto upon the earliest to occur of (a) the termination of the Option as provided in Section 7 below, (b) the termination of the Option as provided in Section 7.2 of the Plan, or (c) the Expiration Date set forth in the Notice. The Option may not be exercised at any time after a termination or expiration of the Option.

6. Change in Control Event

Upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event in which the Option is to terminate (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Option and the Option will not otherwise continue in accordance with its terms in the circumstances), the portion of the Option that is outstanding and unvested immediately prior to the Change in Control Event shall vest and become exercisable. In the event the Option is to be terminated in connection with a Change in Control Event, the Participant shall, unless the Administrator has made a provision for the settlement of the Option, be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise the outstanding portion of the Option in accordance with its terms (after giving effect to the acceleration of vesting) before the termination of the Option in such circumstances (except that in no case shall more than ten (10) days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event).

7. Termination of Employment, Total Disability or Death

The Option shall be exercisable by the Participant (or his or her permitted successor in interest) following the Participant's termination of employment only to the extent provided below in this Section 7. Except as provided in Section 7(f) below, the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "Severance Date." In each case described below, the Option shall be subject to earlier termination as contemplated by Section 5.

(a) Termination of Employment Generally. In the event the Participant ceases to be an employee of the Corporation or any of its Subsidiaries for any reason (other than a termination of employment by the Corporation or one of its Subsidiaries for Cause (as defined below), due to the Participant's death or Retirement (as defined below), or at a time when the Participant is Totally Disabled (as defined below)), the Option shall, to the extent that it is not vested and exercisable on the Participant's Severance Date, terminate effective immediately following the Participant's Severance Date and, to the extent that the Option is vested and exercisable by the Participant on the Participant's Severance Date, it may be exercised by the Participant at any time within three months following the Participant's Severance Date. The Option, to the extent exercisable for the three-month period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-month period.

(b) Total Disability. In the event that the Participant ceases to be an employee of the Corporation or any of its Subsidiaries at a time when the Participant is Totally Disabled and is not eligible to Retire, the Option shall, to the extent that it is not vested and exercisable on the Participant's Severance Date, terminate effective immediately following the Participant's Severance Date. In such circumstances, or in the event that the Participant incurs such a Total Disability within not more than three months of the Participant's Severance Date if the termination of the Participant's employment was for any reason other than a termination of employment by the Corporation or one of its Subsidiaries for Cause, the Option may, to the extent the Option was vested and exercisable by the Participant on the Participant's Severance Date, be exercised by the Participant (or, if the Participant is then incapacitated, by the Participant's personal representatives, heirs, or legatees) at any time during the one-year period following the Participant's Severance Date. The Option, to the extent exercisable for the one-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the one-year period. For purposes of the Option, "Total Disability" (which term shall include "Totally Disabled") means a "permanent and total disability" within the meaning of Section 22(e)(3) of the Code.

(c) Death. If the Participant dies while he or she is an employee of the Corporation or any of its Subsidiaries, the Option (to the extent outstanding and not previously vested and exercisable) shall vest and become exercisable on the Participant's Severance Date and shall continue to be exercisable by the Participant's personal representatives, heirs or legatees, as applicable, at any time during the three-year period following the Participant's Severance Date. The Option, to the extent exercisable for the three-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

(d) Retirement. If the Participant Retires from the Corporation or one of its Subsidiaries, the Option (to the extent outstanding and not previously vested and exercisable) shall vest and become exercisable on the Participant's Severance Date and shall continue to be exercisable by the Participant (or if the Participant is then deceased, by the Participant's personal representatives, heirs or legatees, as applicable) at any time during the three-year period following the Participant's Severance Date. The Option, to the extent exercisable for the three-year period following the Participant's Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period. Notwithstanding the foregoing, in the event a Retired Participant provides services to a competitor of the Corporation or any of its Subsidiaries as an employee, consultant, director, officer, representative, independent contractor or otherwise, or otherwise competes with the business of the Corporation or its Subsidiaries (in each case as determined by the Administrator its sole discretion), the Option, to the extent not previously exercised, shall immediately terminate. In addition, in such event the Corporation shall have the right to recover any profits realized by such Retired Participant as a result of any exercise of the Option during the six-month period prior to the date such Retired Participant commenced providing such services to a competitor. For this purpose, the Participant shall be deemed to have "Retired" (which term shall include "Retirement," "Retire" and "Retires") if the Participant retires from employment with the Corporation or one of its Subsidiaries for any reason other than Cause after satisfying all of the following at the time of such retirement: (i) the Participant is at least 65 years of age, (ii) the Participant's age plus total years of continuous service with the Corporation or any of its Subsidiaries (as determined by the Administrator in its sole discretion) totals at least 75, and (iii) the Participant has five (5) or more years of continuous service with the Corporation or any of its Subsidiaries (as determined by the Administrator in its sole discretion) ending on the date of such retirement. For purposes of calculating "age plus total years of continuous service" under clause (ii) above, fractional years shall be disregarded but may be cumulated (so that, by way of example only, a Participant who is age 65 and 6 months with 9 years and 6 months of continuous service would satisfy the requirements of clause (ii), while a Participant who is age 65 and 6 months with 9 years and 5 months of continuous service would not satisfy the requirements of clause (ii)). For purposes of calculating the Participant's "years of continuous service" under clause (ii) or clause (iii) above, in no event shall the Participant accrue more than one year of service with respect to any period of twelve consecutive months (that is, concurrent employment by both the Corporation and one or more of its Subsidiaries, or by multiple Subsidiaries, for a month shall not be counted as more than one month of service).

(e) Termination for Cause. Notwithstanding the foregoing provisions of this Section 7, if the Participant's employment with the Corporation or any of its Subsidiaries is terminated by the Corporation or one of its Subsidiaries for Cause, the Option (whether or not all or any portion of such Option is then vested and exercisable)

shall immediately terminate effective immediately following the Participant's Severance Date. For these purposes, the term "Cause" shall mean the occurrence or existence of any of the following with respect to the Participant, as determined by the Administrator or its delegate or delegates in its or their sole discretion:

- (i) the Participant's conviction by, or entry of a plea of guilty or *nolo contendere* in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;
- (ii) whether prior or subsequent to the date hereof, the Participant's willful engaging in dishonest or fraudulent actions or omissions;
- (iii) the Participant's failure or refusal to perform his or her duties as reasonably required by his or her employer;
- (iv) negligence, insubordination, violation by the Participant of any duty (loyalty or otherwise) owed to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates, or any other misconduct on the part of the Participant;
- (v) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Administrator's (or its delegate's or delegates') reasonable determination interferes with the Participant's service as an officer or employee of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (vi) sexual harassment by the Participant that has been reasonably substantiated and investigated;
- (vii) involvement in activities representing conflicts of interest with the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (viii) improper disclosure of confidential information;
- (ix) conduct endangering, or likely to endanger, the health or safety of another employee;
- (x) falsifying or misrepresenting information on the records of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (xi) the Participant's physical destruction or theft of substantial property or assets of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates; or
- (xii) breach of any policy of, or agreement with, the Corporation, one or more of its Subsidiaries, or any of their respective affiliates applicable to the Participant or to which the Participant is otherwise bound.

(f) Continuation of Services. If the Participant's employment with the Corporation or any of its Subsidiaries terminates (regardless of the reason) but, immediately thereafter, the Participant continues to render services to the Corporation or any of its Subsidiaries as an employee, director or consultant, such Participant's Severance Date for purposes of the Option shall not be the date such Participant's employment terminates, but instead shall be the last day that the Participant either is employed by or actually renders services to the Corporation or any of its Subsidiaries. As provided in Section 6.1 of the Plan, the Administrator shall be the sole judge for purposes of the Option of whether the Participant continues to render services to the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

(g) Exercise Period for ISOs. Notwithstanding any post-termination exercise period provided for herein or in the Plan, the Option will qualify as an ISO only if it is exercised within the applicable exercise periods for ISOs

under, and meets all of the other requirements of, the Code. If the Option is not exercised within the applicable exercise periods for ISOs or does not meet such other requirements, the Option will be rendered a nonqualified stock option.

8. Exercise of Option

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

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
- payment in full for the purchase price (the per-share exercise price of the Option multiplied by the number of shares to be purchased) in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to approval by the Administrator and such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock either already owned by the Participant or otherwise deliverable hereunder in connection with such Option exercise), such shares in each case valued at their fair market value (as determined under the Plan) on the exercise date;
- any written statements or agreements required by the Administrator pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

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

The Option will qualify as an ISO only if it meets all of the applicable requirements of the Code.

9. Nontransferability

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

10. No Right to Employment

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

11. Rights as a Stockholder

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

12. Notices

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government, or for non-U.S. employees, the government of the country where the Participant is working and/or residing. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 12.

13. Arbitration

Any controversy arising out of or relating to this Option Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy or claim arising out of or related to the Option or the Participant's employment or service, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, U.S.A., before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Option Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable U.S. state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Option, the Participant consents to all of the terms and conditions of this Option Agreement (including, without limitation, this Section 13).

14. Governing Law

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

15. Severability

If the arbitrator selected in accordance with Section 13 or a court of competent jurisdiction determines that any portion of this Option Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Option Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Option Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that

any order striking any portion of this Option Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

16. Entire Agreement

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

17. Section Headings

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

18. Appendix

The Option shall be subject to any additional terms and conditions for non-U.S. employees set forth in Appendix A attached hereto ("Appendix A") and any terms and conditions for Participant's country set forth in Appendix B attached hereto ("Appendix B"). Moreover, if the Participant relocates to one of the countries included in Appendix B, the terms and conditions for such country will apply to the Participant to the extent the Corporation determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Appendix A and Appendix B constitute part of the Option Agreement.

19. Imposition of Other Requirements

The Corporation reserves the right to impose other requirements on Participant's participation in the Plan, on the Option and on any shares of Common Stock acquired under the Plan, to the extent the Corporation determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

20. Clawback Policy

The Option is subject to the forfeiture and clawback provisions of Section 8.14(a) of the Plan.

21. No Advice Regarding Grant

The Participant acknowledges and agrees that he or she should consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 8.5 of the Plan, the Participant is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

Western Digital Corporation
 ID: 33-0956711
 3355 Michelson Drive, Suite 100
 Irvine, CA 92612

Western Digital.

Notice of Grant of Stock Units and Stock Unit Award Agreement - Executives

«fn» «mn» «ln»	Award Number:	«nbr»
«ad1»	Plan:	«pln»
«ad2»	ID:	«id»
«cty», «st» «z»		

Congratulations! Effective «optdt», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2017 Performance Incentive Plan (the “Plan”).¹

Vesting²:

<u>Units</u>	<u>Vest Type</u>	<u>Full Vest</u>
«sp1»	«vtp1»	«vdp1»
«sp2»	«vtp2»	«vdp2»
«sp3»	«vtp3»	«vdp3»
«sp4»	«vtp4»	«vdp4»

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

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

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

² The stock units covered by the award are subject to forfeiture under Section 8 of the attached Standard Terms and Conditions for Stock Unit Awards.

**STANDARD TERMS AND CONDITIONS FOR
STOCK UNIT AWARDS - EXECUTIVES**
2017 Performance Incentive Plan

1. Stock Units Subject to 2017 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") 2017 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

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

2. Award Agreement

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

3. Deferral of Stock Units

Not applicable.

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice. Except as expressly provided in Sections 7 and 8 below, the vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Except as expressly provided in Sections 7 and 8 below, employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 8 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant's Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate.

6. Timing and Manner of Payment of Stock Units

Except as expressly provided herein, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4, Section 7 or Section 8 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation's obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant's Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the fair market value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

7. Change in Control Event

Upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event in which the Stock Units subject to the Award are to terminate (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Award and the Award will not otherwise continue in accordance with its terms in the circumstances), the portion of the Award that is outstanding and unvested immediately prior to the Change in Control Event shall vest and become payable in accordance with Section 6.

8. Termination of Employment

(a) Termination of Employment Generally. Except as expressly provided below in this Section 8, if the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries for any reason (the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "Severance Date"), the Participant's Stock Units shall, to the extent such Stock Units have not become vested upon the Severance Date, be forfeited to the Corporation effective immediately following the Severance Date; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's estate as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of

calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date. Any Stock Units that are not vested after giving effect to the acceleration provided in the preceding sentence shall be forfeited to the Corporation as of the date of the Participant's death.

(b) Termination of Employment in Connection with a Change in Control Event. In the event the Participant ceases to be employed by the Corporation or any of its Subsidiaries as a result of either a termination of employment by the Corporation or one of its Subsidiaries without "Cause" (as defined below) or the resignation of the Participant for "Good Reason" (as defined below), in either case upon or within the one (1) year period following the occurrence of a Change in Control Event, the Award (to the extent outstanding and not previously vested) shall vest and become payable on the Participant's Severance Date in accordance with Sections 3 and 6.

For purposes of this Section 8(b), the term "Cause" shall mean the occurrence or existence of any of the following with respect to the Participant, as determined by a majority of the disinterested directors of the Board:

- (A) the Participant's conviction by, or entry of a plea of guilty or *nolo contendere* in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;
- (B) whether prior or subsequent to the date hereof, the Participant's willful engaging in dishonest or fraudulent actions or omissions which results directly or indirectly in any demonstrable material financial or economic harm to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (C) the Participant's failure or refusal to perform his or her duties as reasonably required by his or her employer, provided that the Participant shall have first received written notice from the employer stating with specificity the nature of such failure or refusal and affording the Participant at least five (5) days to correct the act or omission complained of;
- (D) gross negligence, insubordination, material violation by the Participant of any duty of loyalty to the Corporation, one or more of its Subsidiaries, or any of their respective affiliates, or any other material misconduct on the part of the Participant, provided that the Participant shall have first received written notice from the Corporation stating with specificity the nature of such action or violation and affording the Participant at least five (5) days to correct such action or violation;
- (E) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Board's reasonable determination interferes with the Participant's service as an officer or employee of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (F) sexual harassment by the Participant that has been reasonably substantiated and investigated;
- (G) involvement in activities representing conflicts of interest with the Corporation, one or more of its Subsidiaries, or any of their respective affiliates;
- (H) improper disclosure of confidential information;
- (I) conduct endangering, or likely to endanger, the health or safety of another employee;
- (J) falsifying or misrepresenting information on the records of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates; or

(K) the Participant's physical destruction or theft of substantial property or assets of the Corporation, one or more of its Subsidiaries, or any of their respective affiliates

For purposes of this Section 8(b), the term "Good Reason" shall mean any of the following without the Participant's express written consent:

- (i) a material diminution in the Participant's authority, duties or responsibilities in effect immediately prior to the Change in Control Event;
- (ii) a material diminution by the Employer (as defined below) in the Participant's base compensation in effect immediately prior to a Change in Control Event;
- (iii) any material breach by the Corporation or the Employer of any right that the Participant has under a written severance plan of the Corporation or the Employer in which the Participant participates or by the Corporation or the Employer of any written employment agreement either of them may be a party to with the Participant; or
- (iv) the requirement by the Employer that the Participant's principal place of employment be relocated more than fifty (50) miles from his or her place of employment immediately prior to a Change in Control Event;

provided, however, that any such condition shall not constitute "Good Reason" unless both (i) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (ii) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant's employment with the Corporation shall not be treated as a termination for "Good Reason" unless such termination occurs not more than one (1) year following the initial existence of the condition claimed to constitute "Good Reason."

For purposes of this Award Agreement, "Employer" shall mean the Corporation or its Subsidiary employing the Participant; provided however, that nothing contained herein shall prohibit the Corporation or another of its Subsidiaries fulfilling any obligation of the employing entity to the Participant and for such purposes will be deemed the act of the Employer.

9. Adjustments

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

10. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion,

direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the applicable withholding rates.

11. Nontransferability

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

12. No Right to Employment

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

13. Rights as a Stockholder

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

14. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 14.

15. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, U.S.A., before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court

shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable U.S. state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 15).

16. Governing Law

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

17. Severability

If the arbitrator selected in accordance with Section 15 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

18. Entire Agreement

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

19. Section Headings

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

20. Construction

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

21. Clawback Policy

The Stock Units are subject to the forfeiture and clawback provisions of Section 8.14(a) of the Plan.

22. No Advice Regarding Grant

The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Award Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 10 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

Western Digital Corporation
 ID: 33-0956711
 3355 Michelson Drive, Suite 100
 Irvine, CA 92612

Western Digital.

Notice of Grant of Stock Units and Stock Unit Award Agreement

«fn» «mn» «ln»	Award Number:	«nbr»
«ad1»	Plan:	«pln»
«ad2»	ID:	«id»
«cty», «st» «z»		

Congratulations! Effective «optdt», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2017 Performance Incentive Plan (the “Plan”)¹.

Vesting²:

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

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

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

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

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

STANDARD TERMS AND CONDITIONS FOR STOCK UNIT AWARDS 2017 Performance Incentive Plan

1. Stock Units Subject to 2017 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") 2017 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

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

2. Award Agreement

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

3. Deferral of Stock Units

Not applicable.

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice. The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 8 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant's Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate.

6. Timing and Manner of Payment of Stock Units

Except as expressly provided herein, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4, Section 7 or Section 8 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation's obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant's Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the fair market value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

7. Change in Control Event

Upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event in which the Stock Units subject to the Award are to terminate (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Award and the Award will not otherwise continue in accordance with its terms in the circumstances), the portion of the Award that is outstanding and unvested immediately prior to the Change in Control Event shall vest and become payable in accordance with Section 6.

8. Termination of Employment

If the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability) (the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "Severance Date"), the Participant's Stock Units shall, to the extent such Stock Units have not become vested upon the Severance Date, be forfeited to the Corporation effective immediately following the Severance Date; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's estate as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of

calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date. Any Stock Units that are not vested after giving effect to the acceleration provided in the preceding sentence shall be forfeited to the Corporation as of the date of the Participant's death.

9. Adjustments

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

10. Withholding Taxes

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

11. Nontransferability

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

12. No Right to Employment

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

13. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock

are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

14. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government, or for non-U.S. employees, the government of the country where the Participant is working and/or residing. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 14.

15. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, U.S.A., before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable U.S. state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 15).

16. Governing Law

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

17. Severability

If the arbitrator selected in accordance with Section 15 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such

statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

18. Entire Agreement

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

19. Section Headings

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

20. Appendix

The Award shall be subject to any additional terms and conditions for non-U.S. employees set forth in Appendix A attached hereto ("Appendix A") and any terms and conditions for the Participant's country set forth in Appendix B attached hereto ("Appendix B"). Moreover, if the Participant relocates to one of the countries included in Appendix B, the terms and conditions for such country will apply to the Participant to the extent the Corporation determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Appendix A and Appendix B constitute part of the Award Agreement.

21. Imposition of Other Requirements

The Corporation reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Corporation determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

22. Construction

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

23. Clawback Policy

The Stock Units are subject to the forfeiture and clawback provisions of Section 8.14(a) of the Plan.

24. No Advice Regarding Grant

The Participant acknowledges and agrees that he or she should consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Award Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 10 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

Western Digital Corporation
3355 Michelson Drive, Suite 100
Irvine, CA 92612



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

<<Name>>

Award Number:

<<Address 1>>

Plan: 2017 Performance Incentive Plan

<<Address 2>>

ID:

Congratulations! Effective [____], you have been granted stock units of Western Digital Corporation (the “Corporation”). These stock units were granted under the 2017 Performance Incentive Plan, as such plan may be amended from time to time (the “Plan”).¹

Total Target Number of Stock Units:

Measurement Period covered by grant: [____] to [____] (the “Measurement Period”). The actual number of stock units that vest and become payable based on performance during the Measurement Period may range from 0% to 200% of the total target number of Stock Units subject to the award.

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

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

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

Western Digital

Western Digital Corporation 3355 Michelson Drive, Suite 100
Irvine, California 92612 Telephone 949 672-7000

STANDARD TERMS AND CONDITIONS FOR PERFORMANCE STOCK UNIT AWARDS - EXECUTIVES 2017 Performance Incentive Plan

1. Stock Units Subject to 2017 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under the Western Digital Corporation's (the "Corporation's") 2017 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4, Section 7 or Section 8 and shall not be treated as property or as a trust fund of any kind. The target number of Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

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

2. Award Agreement

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

3. Deferral of Stock Units

Not applicable.

4. Vesting

Within a reasonable period of time following the end of the Measurement Period, the Committee shall determine, in accordance with the performance goals and related criteria and methodology established by the Committee for the Measurement Period, the extent to which the performance goals have been achieved and the actual number of Stock Units becoming vested based on performance during the Measurement Period. Any Stock Units (including any related Stock Units credited as dividend equivalents pursuant to Section 5) that have not become vested based on performance during the Measurement Period shall terminate as of the end of the Measurement Period, and the Participant shall have no further rights with respect to such terminated Stock Units.

Except as expressly provided in Sections 7 and 8 below, the vesting schedule for the Stock Units requires continued employment through the end of the Measurement Period as a condition to the vesting of any Stock Units that vest based on performance and the rights and benefits under this Award Agreement with respect to such Stock Units. Except as expressly provided in Sections 7 and 8 below, employment or service for only a portion of the applicable vesting period, even if a substantial portion, will not entitle the Participant to any

proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or service as provided in Section 8 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant's Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. For these purposes, any Stock Units that vest and become payable in excess of the target number of Stock Units shall be considered to have been granted on the grant date set forth in the Notice. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate.

6. Timing and Manner of Payment of Stock Units

Except as provided in Section 7 or 8, any Stock Units that vest pursuant to the terms of the Notice and these Standard Terms shall be paid within seventy (70) days following the end of the Measurement Period. For any Stock Units that become payable hereunder, the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units becoming payable (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest and become payable), subject to adjustment as provided in Section 7 of the Plan. The Corporation's obligation to deliver shares of Common Stock with respect to Stock Units that vest and become payable is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan in advance of the scheduled payment date. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 4 or Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant's Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the fair market value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

7. Change in Control Event

If, during the Measurement Period and while the Award is outstanding and unvested, a Change in Control Event occurs and the Stock Units subject to the Award are to terminate pursuant to Section 7 of the Plan (i.e., the Administrator has not made a provision for the substitution, assumption, exchange or other continuation of the Award and the Award will not otherwise continue in accordance with its terms in the circumstances), the Total Target Number of Stock Units set forth in the Notice (the "Target Units") (or such greater number of Stock Units as the Committee, in its sole discretion, may deem appropriate in the circumstances, and in any case subject to pro-rata as provided in Section 8(a) in the event the Participant had died during the Measurement Period and prior to the Change in Control Event) shall vest upon (or, as may be necessary to effectuate the purposes of this acceleration, immediately prior to) the occurrence of a Change in Control Event and be paid as soon as practicable following (and in all events no more than seventy (70) days after) the Change in Control Event.

8. Termination of Employment

(a) Termination of Employment Generally. Except as expressly provided below in this Section 8, if the Participant ceases to be employed by or provide services to the Corporation or its Subsidiaries for any reason during the Measurement Period (the last day that the Participant is employed by the Corporation or a Subsidiary prior to a period of non-employment by any such entity is referred to as the Participant's "Severance Date"), the Participant's Stock Units shall be forfeited to the Corporation to the extent such Stock Units have not become vested as of the Severance Date; provided, however, that in the event of the Participant's death during the Measurement Period at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a pro-rata portion of the then outstanding and otherwise unvested Target Units shall

remain outstanding and eligible to vest based on the achievement of the applicable performance goals as set forth in Section 4, and any such Stock Units that vest shall be paid to the Participant's estate as provided in Section 6 above. In the event the date of the Participant's death is during the Measurement Period at a time when the Participant is employed by the Corporation or any of its Subsidiaries, the pro-rata portion of the Target Units that shall remain eligible to vest equals: (a) the number of the Target Units multiplied by (b) a fraction (not greater than one), the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries prior to the Participant's death and the denominator of which is the total number of days in the Measurement Period. The Target Units that are not eligible to vest after giving effect to the foregoing pro-ration provision shall be forfeited to the Corporation as of the date of the Participant's death.

(b) Involuntary Termination of Employment. In the event the Participant ceases to be employed by the Corporation or any of its Subsidiaries during the Measurement Period as a result of a termination of employment under circumstances that give rise to the payment of severance payments under either the Corporation's Executive Severance Plan or Amended and Restated Change of Control Severance Plan (in accordance with the terms of such plans and as each may be amended from time to time), the Target Units subject to the Award that are then outstanding and unvested immediately prior to such a termination of employment shall vest and be paid within seventy (70) days following the date of such termination of employment. For the avoidance of doubt, and not in any way in limitation of the Participant's rights to earn the Stock Units based on performance, if such a termination occurs after the end of the Measurement Period, the Participant shall not be entitled to receive by virtue of his termination of employment any Stock Units to the extent not otherwise earned based on performance pursuant to Section 4.

9. Adjustments

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

10. Withholding Taxes

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

11. Nontransferability

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

12. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an

employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

13. Rights as a Stockholder

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

14. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government, or for non-U.S. employees, the government of the country where the Participant is working and/or residing. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 14.

15. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, U.S.A., before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable U.S. state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 15).

16. Governing Law

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

17. Severability

If the arbitrator selected in accordance with Section 15 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

18. Entire Agreement

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

19. Section Headings

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

20. Appendix

The Award shall be subject to any additional terms and conditions for non-U.S. employees set forth in Appendix A attached hereto ("Appendix A") and any terms and conditions for the Participant's country set forth in Appendix B attached hereto ("Appendix B"). Moreover, if the Participant relocates to one of the countries included in Appendix B, the terms and conditions for such country will apply to the Participant to the extent the Corporation determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Appendix A and Appendix B constitute part of the Award Agreement.

21. Imposition of Other Requirements

The Corporation reserves the right to impose other requirements on the Participant's participation in the Plan, on the Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Corporation determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

22. Construction

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

23. Clawback Policy

The Stock Units are subject to the forfeiture and clawback provisions of Section 8.14(a) of the Plan.

24. No Advice Regarding Grant

The Participant acknowledges and agrees that he or she should consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Award Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 10 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

EXHIBIT A

**LTI STOCK UNIT AWARD - EXECUTIVES
Performance Goals**

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

- 1. Establishment.** The Corporation maintains the Western Digital Corporation Non-Employee Directors Restricted Stock Unit Program (the “**Program**”), which is hereby amended and restated in its entirety effective as of November 1, 2017 (the “**Effective Date**”). This amendment and restatement of the Program is effective as to grants on and after the Effective Date; awards granted under the Program prior to the Effective Date are governed by the applicable terms of the Program as in effect on the date of grant of the award. The Program has been restated as an Appendix to, and any shares of Common Stock issued with respect to awards granted under the Program on and after the Effective Date shall be charged against the applicable share limits of, the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”).¹ Except as otherwise expressly provided herein, the provisions of the Plan shall govern all awards made pursuant to the Program. Capitalized terms are defined in the Plan if not defined herein.
- 2. Purpose.** The purpose of the Program is to promote the success of the Corporation and the interests of its stockholders by providing members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries (“**Non-Employee Directors**”) an opportunity to acquire an ownership interest in the Corporation and more closely aligning the interests of Non-Employee Directors and stockholders.
- 3. Participation.** An award of Stock Units (a “**Stock Unit Award**”) under the Program shall be made only to Non-Employee Directors, shall be evidenced by a Notice of Award of Stock Units substantially in the form attached as Exhibit 1 hereto and shall be further subject to such other terms and conditions set forth therein. As used in the Program, the term “**Stock Unit**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Program. Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to a Non-Employee Director if Stock Units held by such Non-Employee Director vest pursuant to Section 6 or Section 8. Stock Units shall not be treated as property or as a trust fund of any kind. Stock Units granted to a Non-Employee Director pursuant to the Program shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Non-Employee Director (a “**Program Account**”).

¹ Following approval by the Corporation’s stockholders and its 2017 Annual Meeting of Stockholders on November 2, 2017, the Plan was renamed as the “2017 Performance Incentive Plan.”

4. Annual Stock Unit Awards.

4.1 Annual Awards. On the date of and immediately following the Corporation's regular annual meeting of stockholders in each year during the term of the Plan commencing with 2012, each Non-Employee Director then in office shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number (rounded down to the nearest whole number) of Stock Units equal to (i) \$240,000 (\$290,000 in the case of a Non-Employee Director then serving as Chair of the Board and \$270,000 in the case of a Non-Employee Director then serving as Lead Independent Director), divided by (ii) the Fair Market Value of a share of Common Stock on the applicable annual meeting date (subject to adjustment as provided in Section 7.1 of the Plan). An individual who was previously a member of the Board, who then ceased to be a member of the Board for any reason, and who then again becomes a Non-Employee Director shall thereupon again become eligible to be granted Stock Units under this Section 4.1.

4.2 Initial Award for New Directors. Upon first being appointed or elected to the Board, a Non-Employee Director who has not previously served on the Board shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number of Stock Units equal to (i) the number of Stock Units in the Annual Award immediately preceding the date such Non-Employee Director is first appointed or elected to the Board, divided by (ii) 365, multiplied by (iii) the number of days from the date such Non-Employee Director is first appointed or elected to the Board to the scheduled date of the Corporation's next annual meeting of stockholders.

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

5. Dividend and Voting Rights.

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

5.2 Dividend Equivalent Rights. As of any date that the Corporation pays a dividend (other than in shares of Common Stock) upon issued and outstanding Common Stock, or makes a distribution (other than in shares of Common Stock) with respect thereto, a Non-Employee Director's Program Account shall be credited with an additional number (rounded down to the nearest whole number) of Stock Units equal to (i) the "fair value"

of any dividend (or other distribution) with respect to one share of Common Stock, multiplied by (ii) the number of unpaid Stock Units credited to the Non-Employee Director's Program Account immediately prior to such dividend or distribution, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend or distribution. In the case of a cash dividend or distribution, the "fair value" thereof shall be the amount of such cash, and, in the case of any other dividend or distribution (other than in shares of Common Stock), the "fair value" thereof shall be such amount as shall be determined in good faith by the Administrator. Stock Units credited pursuant to the foregoing provisions of this Section 5.2 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. No adjustment shall be made pursuant to Section 7.1 of the Plan as to Stock Units granted pursuant to the Program in connection with any dividend (other than in shares of Common Stock) or distribution (other than in shares of Common Stock) for which dividend equivalents are credited pursuant to the foregoing provisions of this Section 5.2. Stock Units granted pursuant to the Program shall otherwise be subject to adjustment pursuant to Section 7.1 of the Plan (for example, and without limitation, in connection with a split or reverse split of the outstanding Common Stock).

6. Vesting. Subject to Section 8 hereof and Section 7 of the Plan, a Stock Unit Award granted to a Non-Employee Director pursuant to the Program (whether pursuant to Section 4 or Section 5.2) shall vest and become payable as to 100% of the total number of Stock Units subject thereto on the first to occur of (i) the first anniversary of the date of grant of the Stock Unit Award or (ii) immediately prior to the Corporation's first regular meeting of stockholders following the date of grant of the Stock Unit Award.

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

8. Termination of Directorship. Subject to earlier termination pursuant to Section 7 of the Plan, if a Non-Employee Director incurs a Separation from Service (as defined below) for any reason, the following rules shall apply with respect to any Stock Units granted to the Non-Employee Director pursuant to Section 4 above:

- other than as expressly provided below in this Section 8, all Stock Units granted to the Non-Employee Director pursuant to the Program that have not vested as of the Non-Employee Director's Separation from Service, shall immediately terminate without payment therefor;

- if the Non-Employee Director's Separation from Service occurs due to his or her death or Disability (as defined below), all Stock Units granted to the Non-Employee Director pursuant to the Program shall immediately vest and become payable as provided in Section 9;
- if the Non-Employee Director ceases to be a member of the Board due to his or her Removal, all then-unvested Stock Units granted to the Non-Employee Director pursuant to the Program shall immediately terminate without payment therefor.

For purposes of this Section 8, the term "**Disability**" shall mean a period of disability during which a Non-Employee Director qualified for permanent disability benefits under the Corporation's long-term disability plan, or, if the Non-Employee Director does not participate in such a plan, a period of disability during which the Non-Employee Director would have qualified for permanent disability benefits under such a plan had the Non-Employee Director been a participant in such a plan, as determined in the sole discretion of the Administrator. If the Corporation does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Administrator in its sole discretion. For purposes of this Section 8, the term "**Removal**" shall mean the removal of a Non-Employee Director from the Board, with or without cause, in accordance with the Corporation's Certificate of Incorporation, Bylaws or the Delaware General Corporation Law.

For purposes of this Section 8, the term "**Separation from Service**," with respect to a Non-Employee Director, shall mean the date the Non-Employee Director ceases to be a member of the Board (regardless of the reason); provided, however, that if the Non-Employee Director is immediately thereafter employed by the Corporation or one of its Subsidiaries, such director's Separation from Service shall be the date such director incurs a "separation from service" as such term is defined for purposes of Section 409A of the Code.

9. Timing and Manner of Payment of Stock Units. Except as provided in Section 10 below, on or within fifteen (15) business days following the first to occur of (i) the first anniversary of the date of grant of the Stock Unit Award, or (ii) the Non-Employee Director's Separation from Service, the Corporation shall deliver to the Non-Employee Director a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units (if any) that vested with respect to the corresponding Stock Unit Award in accordance with the provisions hereof, subject to adjustment as provided in Section 7 of the Plan; provided, however, that, to the extent permitted by the Corporation's Amended and Restated Deferred Compensation Plan, as it may be amended from time to time (the "**Deferred Compensation Plan**"), a Non-Employee Director may elect to defer receipt of any or all shares of Common Stock payable with respect to Stock Units that vest pursuant to the Program. Such elections shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan. The Corporation's obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Non-Employee Director (or other person entitled under the Plan to receive any shares

with respect to the vested Stock Units) deliver to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. A Non-Employee Director shall have no further rights with respect to any Stock Units that are paid or that are terminated pursuant to Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Non-Employee Director's Program Account upon the date of such payment or termination.

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

11. Plan Provisions; Maximum Number of Shares; Amendment; Administration; Construction. Stock Units granted under the Program shall otherwise be subject to the terms of the Plan (including, without limitation, the provisions of Section 7 of the Plan). If Stock Unit Awards otherwise required pursuant to the Program would otherwise exceed any applicable share limit under Section 4.2 of the Plan, such grants shall be made pro-rata to Non-Employee Directors entitled to such grants. The Board may from time to time amend the Program without stockholder approval; provided that no such amendment shall materially and adversely affect the rights of a Non-Employee Director as to a Stock Unit Award granted under the Program before the adoption of such amendment. The Board may amend, modify, suspend or terminate outstanding Stock Unit Awards; provided, however, that outstanding Stock Unit Awards shall not be amended, modified, suspended or terminated so as to impair any rights of the recipient of the award without the consent of such recipient. If any such amendment or modification to an outstanding Stock Unit Award has the result of accelerating the vesting of such award, then any election that had been made to defer receipt of payment with respect to any or all of the Stock Units subject to the award pursuant to the Deferred Compensation Plan shall be disregarded. The Program does not limit the Board's authority to make other, discretionary award grants to Non-Employee Directors pursuant to the Plan. The Plan Administrator's power and authority to construe and interpret the Plan and awards thereunder pursuant to Section 3.1 of the Plan shall extend to the Program and awards granted hereunder. As provided in Section 3.2 of the Plan, any action taken by, or inaction of, the Administrator relating or pursuant to the Program and within its authority or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. It is intended that the terms of the Program and all Stock Unit Awards granted under the Program will not result in the imposition of any tax liability pursuant to Section 409A of the Code. The Program and all Stock Unit Awards granted hereunder shall be construed and interpreted consistent with that intent.

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Western Digital Corporation
 Summary of Compensation Arrangements
 for
 Named Executive Officers and Directors
 November 2, 2017

NAMED EXECUTIVE OFFICERS

Base Salaries. The current annual base salaries for the executive officers of Western Digital Corporation (the “Company”) who were named in the Summary Compensation Table in the Company’s Proxy Statement that was filed with the Securities and Exchange Commission in connection with the Company’s 2017 Annual Meeting of Stockholders (the “Named Executive Officers”) are as follows:

Named Executive Officer	Title	Current Base Salary
Stephen D. Milligan	Chief Executive Officer	\$ 1,250,000
Michael D. Cordano	President and Chief Operating Officer	\$ 800,000
Mark P. Long	President WD Capital, Chief Strategy Officer and Chief Financial Officer	\$ 675,000
Martin R. Fink	Executive Vice President and Chief Technology Officer	\$ 600,000
Michael C. Ray	Executive Vice President, Chief Legal Officer and Secretary	\$ 575,000

Semi-Annual Bonuses. The Named Executive Officers are also eligible to receive semi-annual cash bonus awards pursuant to the short-term incentive program under the Company’s Incentive Compensation Plan. The cash bonus awards are determined based on the Company’s achievement of performance goals pre-established by the Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”) (for fiscal 2017, pre-established adjusted earnings per share goals) as well as other factors.

Additional Compensation. The Named Executive Officers are also eligible to receive equity-based incentives as determined by the Committee under the Company’s 2017 Performance Incentive Plan and entitled to participate in various other Company plans, in each case as set forth in exhibits to the Company’s filings with the Securities and Exchange Commission or in accordance with plans available to the Company’s employees generally. In addition, the Named Executive Officers may be eligible to receive perquisites and other personal benefits as disclosed in the Company’s Proxy Statement filed with the Securities and Exchange Commission in connection with the Company’s 2017 Annual Meeting of Stockholders.

DIRECTORS

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

Type of Fee		Current Annual Retainer Fees
Annual Retainer	\$	75,000
Additional Non-Executive Chairman of Board Retainer	\$	100,000
Additional Committee Retainers		
• Audit Committee	\$	15,000
• Compensation Committee	\$	12,500
• Governance Committee	\$	10,000
Additional Committee Chairman Retainers		
• Audit Committee	\$	25,000
• Compensation Committee	\$	22,500
• Governance Committee	\$	12,500

The annual retainer fees are paid immediately following the Annual Meeting of Stockholders. Directors who are appointed to the Board during the year are paid a pro-rata amount of the annual director retainer fees based on service to be rendered for the remaining part of the year after appointment. Non-employee directors do not receive a separate fee for each Board or committee meeting they attend. However, the Company reimburses all non-employee directors for reasonable out-of-pocket expenses incurred to attend each Board or committee meeting. Mr. Milligan, who is an employee of the Company, does not receive any compensation for his service on the Board or any Board committee.

Additional Director Compensation. The Company's non-employee directors are also entitled to participate in the following other Company plans as set forth in exhibits to the Company's filings with the Securities and Exchange Commission: Non-Employee Director Restricted Stock Unit Grant Program, as adopted under the Company's 2017 Performance Incentive Plan; and Deferred Compensation Plan.

For fiscal 2018, the Board has provided that each of the Company's non-employee directors automatically receive, immediately following each annual meeting of stockholders if he or she has been reelected as a director at that annual meeting, an award of restricted stock units under the Non-Employee Director Restricted Stock Unit Grant Program equal in value to \$240,000 (or, in the case of our non-employee director serving as Chairman of the Board, \$290,000, or Lead Independent Director, \$270,000), based on the closing market value of an equivalent number of shares of our common stock on the grant date, rounded down to the nearest whole share. Upon first being appointed or elected to the Board, a new non-employee director who has not previously served on the Board is awarded a pro-rata award under the Non-Employee Director Restricted Stock Unit Grant Program based on the remaining part of the year after appointment. Each award of restricted stock units represents the right to receive an equivalent number of shares of our common stock on the applicable vesting date as provided in the Non-Employee Director Restricted Stock Unit Grant Program.

The Board may from time to time amend the compensation arrangements for the Company's non-employee directors.

FAL COMMITMENT AND EXTENSION AGREEMENT

This FAL COMMITMENT AND EXTENSION AGREEMENT (this “Agreement”) is made as of December 12, 2017, by and among Toshiba Memory Corporation, a Japanese corporation (“TMC”), Western Digital Corporation, a Delaware corporation (“WD”), SanDisk LLC, a Delaware limited liability company (“SanDisk”) and SanDisk (Ireland) Limited, a company organized under the laws of the Republic of Ireland (“SanDisk Ireland”) and, together with WD, SanDisk and TMC, the “Parties”).

WHEREAS, Toshiba Corporation (“Toshiba”), SanDisk and SanDisk Ireland entered into that certain Flash Alliance Master Agreement on July 7, 2006 (as amended, the “FA Master Agreement”), and the other FA Operative Documents, which collectively provide for the management and operation of Flash Alliance Limited, a Japanese *tokurei yugen kaisha* (“Flash Alliance”) and which by their terms are set to expire as of December 31, 2021;

WHEREAS, on May 12, 2016, SanDisk Corporation, together with its Subsidiaries, became wholly owned indirect Subsidiaries of WD and SanDisk Corporation subsequently converted from a Delaware corporation to a Delaware limited liability company that is now known as SanDisk LLC;

WHEREAS, on even date herewith, WD, Toshiba, and TMC entered into the Parent Guarantee and Undertaking as to Collaboration, which sets forth, among other things, certain rights and obligations of the parties thereto with respect to WD’s participation in activities related to the Collaboration (as defined therein), including those contemplated by the FA Operative Documents;

WHEREAS, Toshiba and TMC claim that, effective as of April 1, 2017, Toshiba completed a corporate demerger by operation of law that transferred to TMC, Toshiba’s wholly-owned Subsidiary, substantially all of the assets and liabilities of Toshiba’s memory business, and that TMC has assumed Toshiba’s position as a party to the FA Operative Documents;

WHEREAS, following the execution of the Confidential Settlement and Mutual Release Agreement, dated as of even date herewith, by and among Toshiba, TMC, WD, SanDisk, and certain of SanDisk’s Subsidiaries, Toshiba intends to transfer certain other assets and liabilities related to Toshiba’s memory business to TMC, including Toshiba’s equity ownership interests in Flash Alliance; and

WHEREAS, the Parties desire to extend the term of Flash Alliance, the FA Master Agreement and the other FA Operative Documents, and to specify the terms and conditions on which such extension is hereby agreed.

NOW, THEREFORE, on the terms and subject to the conditions and limitations set forth in this Agreement, with reference to Section 2.1 of Appendix A to the FA Operative Documents and Section 2.4 of the FA Operating Agreement, the Parties hereby agree as follows:

**** Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1. RELATION TO FA OPERATIVE DOCUMENTS

1.1 Application of Appendix A. Appendix A to the FA Operative Documents, as amended by this Agreement (“Appendix A”), shall apply to this Agreement. The capitalized terms used but not defined in this Agreement shall have the respective meanings assigned to them in Appendix A (or, if not defined in Appendix A, the respective meanings assigned to them in the FA Master Agreement) and the rules of construction and documentary conventions set forth in Appendix A shall apply to this Agreement as if set forth herein.

1.2 Effect of this Agreement. Except as expressly set forth in this Agreement, the FA Operative Documents shall be unaffected by this Agreement, and this Agreement shall be governed by and subject to the terms of the FA Operative Documents as amended hereby. From and after the date of this Agreement, each reference in any FA Operative Document to “this Agreement,” “hereof,” “hereunder” or words of like import, and all references to such FA Operative Document in any and all agreements, instruments, documents, notes, certificates and other writings of every kind of nature (other than in this Agreement or as otherwise expressly provided) shall be deemed to mean such FA Operative Document, as amended by and giving effect to this Agreement, whether or not such amendment is expressly referenced.

1.3 Addition to FA Operative Documents. This Agreement shall be deemed to be an FA Operative Document and the definition of “FA Operative Documents” as set forth in Appendix A is hereby amended so as to include this Agreement.

2. EXTENSION

2.1 FAL Term Extended. Section 2.4 (“Term; Extension”) of the FA Operating Agreement is hereby amended and restated in its entirety as follows:

“Term; Extension. The Company shall be terminated on December 31, 2029, unless extended by mutual written agreement of all the Shareholders or earlier terminated in accordance with Section 11 (Dissolution). Any such extension shall be effective only upon the written agreement of all of the Shareholders and shall be on such terms and for such period as set forth in such agreement. The Shareholders agree to meet, no later than December 31, 2028, to discuss the possible extension of the term of the Company.”

2.2 Flash Alliance Articles of Incorporation. Promptly following the date hereof, the Parties shall cause Article 4 of the Articles of Incorporation of Flash Alliance to be amended to extend the term of Flash Alliance to December 31, 2029.

3. OTHER COVENANTS AND AMENDMENTS

3.1 Material Breach. Section 8.1 (“Termination”) of the FA Master Agreement is hereby amended to add the following provision as a new Section 8.1(l) thereof:

“(l) The Parties agree and acknowledge that in the event of a final determination by an arbitral tribunal under Section 2.5 of Appendix A that a Party has committed or is

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committing a continuing material breach of any of **** of this Agreement that would reasonably be expected to cause material damage to Flash Alliance or the non-breaching Party (any such breach, a “Material Breach”), and the breaching Party fails to cure such breach within **** after such determination, then the non-breaching Party shall have as a remedy for Material Breach the termination of Flash Alliance and of this Agreement and the FA Operative Documents, in addition to all other legal and equitable remedies available to such Party. Notwithstanding anything to the contrary in Appendix A, any such termination shall constitute an “Event of Default” of the breaching Party for all purposes of this Agreement and of that certain FAL Commitment and Extension Agreement dated as of December 12, 2017.

In the event that a Party asserts a Material Breach in a written notice to the other Party, the dispute shall proceed as specified in Section 2.5 of Appendix A, provided, however, that

(i) no matters other than the existence of such Material Breach (and counterclaims and defenses directly related to the conduct or circumstances underlying the asserted Material Breach) shall be submitted to or determined by the arbitral tribunal;

(ii) the Parties shall use their respective reasonable best efforts to complete and finalize the Terms of Reference within **** following such assertion of Material Breach; and

(iii) the Parties shall instruct the arbitral tribunal, with the full assistance and cooperation of the Parties, to endeavor to submit its draft award on the existence of the Material Breach to the Court of Arbitration of the ICC for approval within **** following the effective date of the Terms of Reference, provided, that any failure to issue an award in such time period shall not be considered a defense or objection to the enforcement of such award.

The Parties agree to attempt in good faith to resolve any potential claim for Material Breach.”

3.2 Restructuring Costs. Section 8.1(j) of the FA Master Agreement is hereby amended and restated in its entirety as follows:

“In connection with any termination of Flash Alliance, the FA Master Agreement and/or the FA Operating Agreement:

(i) the Parties shall exercise their respective reasonable best efforts to plan such termination in advance with the goal of minimizing related costs;

(ii) with respect to employees of TMC and employees of WD or any of its Subsidiaries working at the Y4 Facility, (A) in the case of those that are employees of TMC, TMC shall use its reasonable best efforts to retrain or relocate such individuals to other TMC facilities, and (B) in the case of those that are employees of WD or any of its Subsidiaries, WD shall use its reasonable best efforts to retrain or relocate such individuals to other WD facilities, in each case to the maximum extent possible;

(iii) ****

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(iv) ****

(v) ****

3.3 Consequences of Deadlock Termination. Section 8.1(f)(i) of the FA Master Agreement is hereby amended and restated in its entirety as follows:

“ (i) there shall be no capacity ramp-down rights or obligations,”.

4. MISCELLANEOUS

4.1 Term. This Agreement shall continue in full force and effect until the latest of (a) the termination of the FA Master Agreement, (b) the completion of the dissolution, liquidation and winding up of Flash Alliance, and (c) the date on which a single Party owns all of the Shares.

4.2 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such state without regard to the conflict of laws principles of such state, except where application of Japanese law is mandatory.

4.3 Further Assurances. Each Party shall from time to time, and shall cause its Affiliates who are party to any FA Operative Document from time to time to, at the reasonable request of the other Parties, and without further consideration (unless otherwise provided for under the FA Operative Documents), execute and deliver such instruments, cooperate and take any other actions as may be reasonably necessary to effectuate (i) the provisions of this Agreement and (ii) the transactions contemplated herein.

4.4 Other Terms. Further to Section 1.1 above, the general, miscellaneous, interpretive, non-disclosure and other terms and conditions provided in Appendix A shall apply to this Agreement as if set forth herein.

4.5 No Admission. Nothing in this Agreement shall constitute or be used as an admission, acquiescence, acknowledgement, or agreement by anyone as to the merit of any claims or defenses, whether or not asserted in any arbitration or other litigation, except to enforce the provisions of this Agreement or any part of any other agreement expressly amended herein. In addition, nothing in this Agreement shall constitute or be used as an admission in any arbitration, litigation, or other proceeding regarding the interpretation of any other agreement.

[The remainder of this page is intentionally left blank.]

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

WESTERN DIGITAL CORPORATION

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Executive Vice President, Chief Legal
Officer and Secretary

TOSHIBA MEMORY CORPORATION

By: /s/ Yasuo Naruke
Name: Yasuo Naruke
Title: President and Chief Executive Officer

SANDISK LLC

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Sole Manager

SANDISK (IRELAND) LIMITED

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

[Signature Page to EAL Commitment and Extension Agreement]

Y6 FACILITY AGREEMENT

This Y6 FACILITY AGREEMENT (this “Agreement”) is made as of December 12, 2017, by and among Toshiba Memory Corporation, a Japanese corporation (“TMC”), Western Digital Corporation, a Delaware corporation (“WD”) (together with TMC, the “Parent Parties”), SanDisk LLC, a Delaware limited liability company (“SanDisk LLC”), SanDisk (Cayman) Limited, a company organized under the laws of the Cayman Islands (“SanDisk Cayman”), SanDisk (Ireland) Limited, a company organized under the laws of the Republic of Ireland (“SanDisk Ireland”), SanDisk Flash B.V., a company organized under the laws of The Netherlands (“SanDisk Flash,” and collectively with SanDisk LLC, SanDisk Cayman and SanDisk Ireland, “SanDisk”), Flash Partners, Ltd., a Japanese *tokurei yugen kaisha* (“FPL”), Flash Alliance, Ltd., a Japanese *tokurei yugen kaisha* (“FAL”), and Flash Forward, Ltd., a Japanese *godo kaisha* (“FFL,” and collectively with TMC, WD, SanDisk, FPL and FAL, the “Parties”).

WHEREAS, Toshiba Corporation (“Toshiba”) and TMC claim that, effective as of April 1, 2017, Toshiba completed a corporate demerger by operation of law that transferred to TMC, Toshiba’s wholly-owned Subsidiary, substantially all of the assets and liabilities of Toshiba’s memory business, and that TMC has assumed Toshiba’s position as a party to the Master Operative Documents (as defined in Exhibit A);

WHEREAS, following the execution of the Settlement Agreement, Toshiba intends to transfer certain other assets and liabilities related to Toshiba’s memory business to TMC, including Toshiba’s equity ownership interests in FPL, FAL, and FFL;

WHEREAS, on even date herewith, WD, Toshiba, TMC, SanDisk, and the JVs entered into the Undertaking (as defined in Exhibit A) which sets forth, among other things, certain rights and obligations of the parties thereto with respect to WD’s participation in activities related to the Collaboration (as defined therein), including those contemplated by the Master Operative Documents;

WHEREAS, FPL, FAL and FFL (collectively, with any future joint venture operations mutually agreed between TMC and WD, the “JVs” and, each, a “JV”) are engaged in the manufacture of NAND Flash Memory Products and BiCS Products;

WHEREAS, TMC plans to build and facilitate the Y6 Facility (as defined in Exhibit A) primarily for use in converting existing production capacity into capacity for the production of BiCS Products, and the Parties intend that the JVs acquire such BiCS Products and invest in tools for the manufacture of such BiCS Products in accordance with the production framework established in the New Y2 Agreement;

WHEREAS, TMC has begun and will continue to unilaterally implement a portion of the Phase I Investment (as defined in Exhibit A), with the resulting capacity to be Toshiba Capacity (such unilateral implementation, which constitutes in part a Yokkaichi Unilateral BiCS

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Expansion, and in part a BiCS Conversion and BiCS Technology Transition on Toshiba Capacity, the “Phase I Implementation”);

WHEREAS, the Parties desire to set forth the terms and conditions of the construction and use of the Y6 Facility;

WHEREAS, WD and TMC are concurrently entering into the WD-TMC PCLA; and

WHEREAS, some or all of the Parties, among others, are concurrently entering into this Agreement, the Amendment to the FPL Commitment and Extension Agreement, the FAL Commitment and Extension Agreement, the FFL Commitment and Extension Agreement, the Patent Indemnification Termination Agreement, the Amended JMDY Agreement and the Y6 MCEIA (each as defined in Exhibit A, and collectively, the “New Agreements”);

NOW, THEREFORE, the Parties hereby agree as follows:

1. FRAMEWORK

1.1 New Y2 Production Framework. The Parties acknowledge and agree that the terms and conditions set forth in Article 1 of the New Y2 Agreement apply to the manufacture of BiCS Products in the Y6 Facility; provided, however, to the extent any provision of Article 1 of the New Y2 Agreement expressly conflicts with any provision in this Agreement, the provision in this Agreement shall control as to such conflict.

2. Y6 FACILITY AND CONSTRUCTION

2.1 Purpose of Y6. The Parties acknowledge and agree that (a) the primary purpose of the Y6 Facility is the installation of tools that, as operated by TMC in conjunction with other Yokkaichi Facility tools, enable the Parties to convert their then-existing production capacity for NAND Flash Memory Products (including NAND capacity in the JVs and Toshiba Capacity) into production capacity for BiCS Products (“BiCS Conversion”) and (b) the Y6 Facility may also be used by the Parties for (i) transitions of their then-existing production capacity for a given BiCS Product to production capacity for another technology node of such BiCS Product (“BiCS Technology Transitions”), and BiCS Expansions (as defined in Exhibit A), (ii) the manufacture of other products (including supporting capacity expansions and technology transitions of such other products) and (iii) the development of new technologies or products, in each case of (ii) and (iii), as mutually agreed between the Parent Parties from time to time.

2.2 First JV Wafer Out. The Parties target Y6 Facility cleanroom readiness to occur ***** with respect to wafer capacity from the implementation of the Minimum Commitment, with a First JV Wafer Out Date targeted *****.

2.3 Rights and Responsibilities in Construction.

(a) TMC. TMC shall (i) direct the design, construction and facilitization of the Y6 Facility and (ii) exercise commercially reasonable efforts to ensure that the Y6 Facility is (A) insurable, (B) designed and constructed to mutually acceptable high levels of risk control

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standards and (C) completed on a schedule consistent with achieving the First JV Wafer Out Date provided for in Section 2.2. TMC shall maintain the Y6 Facility at mutually acceptable high levels of risk control standards in accordance with current practice.

(b) WD. In connection with the construction and facilitization of the Y6 Facility, (i) WD shall (and the Parent Parties shall cause the JVs to) assist TMC in minimizing the time required to obtain required administrative approvals, and (ii) WD and its agents shall have (with prior coordination with TMC and the construction coordinators for the Y6 Facility) reasonable access to the Y6 Facility construction site and to all appropriate information pertaining to the construction of the Y6 Facility and necessary for WD to participate in the JV operations in the Y6 Facility; provided, that WD shall be solely responsible for all damage caused by such access.

2.4 Phases of Construction. The shell of the Y6 Facility shall be built in two phases of substantially similar size, and the cleanroom within each such phase shall be built in two phases of substantially similar size (i.e., a total of four phases). ****

2.5 Construction Costs and Related Costs.

(a) Building Depreciation Prepayment. Each of the Parent Parties agrees to prepay 6,750,000,000 Japanese Yen to FFL as a prepayment for the Y6 building depreciation (such prepayment amount, the "Building Depreciation Prepayment") ****. The Building Depreciation Prepayment shall be made **** within 30 days after the date hereof; ****.

(b) Start-Up Costs. The Parties acknowledge that one or more of the Parties have incurred or will incur actual costs in connection with constructing the Y6 Facility and preparing the Y6 Facility for production during the period prior to the start of volume production at the Y6 Facility (the "Start-Up Period"), including such actual costs incurred by TMC in connection with the Phase I Implementation, and personnel costs, materials costs and other operating expenses, for which each Parent Party has the obligation ultimately to bear 50% ("Start-Up Costs"). The Parent Parties shall discuss in good faith and agree upon the Start-Up Costs borne by the Parties and the means and timing by which each Party, as applicable, shall be reimbursed or credited for having incurred more than 50% of the Start-Up Costs or shall make payments due for having incurred less than 50% of the Start-Up Costs; provided, that the determination and allocation of Start-Up Costs and the means and timing of reimbursement shall be in a manner substantially similar to that utilized in connection with the start-up costs of the New Y2 Facility. Start-Up Costs will be excluded from Y6 Manufacturing Costs.

(c) Land Costs. ****

2.6 Incentives. ****

2.7 Insurance. TMC shall maintain or arrange property insurance covering the JV assets in the Y6 Facility and business interruption insurance in respect of the business conducted at the Y6 Facility, the scope and amounts of which shall be consistent with existing practices at the Yokkaichi Facility and as required by any lender or carrier to secure such coverage. This coverage shall provide basically full replacement value of all JV equipment installed in the Y6 Facility, subject to valuation as part of TMC's annual insurance policy renewal, and shall name the applicable JV as a beneficiary in respect of assets owned or leased by it and Y6 employee expenses covered by business interruption insurance. On an annual basis, or when requested by either Party, the Y6 Operating Committee shall discuss and review the current insurance coverage and/or the need for any additional property or business interruption insurance in respect of the JV assets in and operations of the Y6 Facility. Further, WD reserves the right to seek to arrange additional property or business interruption insurance for its own account in respect of such assets or operations, and TMC shall cooperate in good faith to provide such information and access as is reasonably necessary for WD to arrange such insurance. If TMC makes a recovery from a third party (other than an insurer per the above) in respect of both assets in the Y6 Facility and other assets, then TMC shall allocate to the applicable JVs a share of the net amount of such recovery in proportion to the losses suffered by such JVs and total losses suffered by such JVs and TMC.

3. PRODUCTS; RIGHTS TO CLEANROOM SPACE; TOOLS

3.1 BiCS Products.

(a) The JVs may produce BiCS Products at the Y6 Facility.

(b) BiCS Products manufactured at the Yokkaichi Facility and that are identified **** as Y6 lots are referred to as "Y6 BiCS Products." "JV Y6 BiCS Products" are Y6 BiCS Products allocated to a JV under the applicable JV's JV Master Agreement. "Y6 Unilateral BiCS Products" are Y6 BiCS Products allocated to ****. The reference to "Yokkaichi Unilateral BiCS Expansions" in Section 3.1(b) of the New Y2 Agreement is hereby amended to include Yokkaichi Unilateral BiCS Expansions as defined in this Agreement.

(c) For the avoidance of doubt, ****.

3.2 Rights to Cleanroom Space.

(a) JV BiCS Space. The Parties acknowledge that each of the JVs has the right to invest in and secure production capacity and/or cleanroom space in the Y6 Facility for the production of JV BiCS Products. The definition of “JV BiCS Space,” as defined in the New Y2 Agreement, is hereby amended to include the cleanroom space in the Y6 Facility actually so utilized by the JVs for production of BiCS Products at any time. In the event of an expiration or dissolution of a JV or termination of a JV Master Agreement for any reason, without any

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limitation on TMC's use or disposal of the facilities or assets of such JV, each Parent Party shall consider in good faith potential negative impacts on the remaining JVs' respective production capacities and utilization of their respective JV Space in the Yokkaichi Facility.

(b) Y6 Non-JV Space. The Parent Parties have the right to invest in and secure production capacity and/or cleanroom space in the Y6 Facility as follows:

- (i) ****.
- (ii) Yokkaichi Unilateral BiCS Expansion Space. ****
- (iii) TMC Capacity Conversion. ****

3.3 Tool Acquisition, Usage and Layout.

(a) JV Tools. Acquisitions of JV BiCS Tools shall be made in accordance with the terms for NAND Flash Memory Products tool acquisitions in the applicable JV Master Agreement, and JV BiCS Tools may be installed in the Y6 Facility as mutually agreed by the Parent Parties.

- (b) Toshiba R&D Tools. ****
- (c) BiCS Unilateral Tools. ****
- (d) Tool Layout. ****

3.4 NAND Flash Memory Products. Notwithstanding anything to the contrary in this Agreement, the Parties acknowledge that NAND Flash Memory Products may be manufactured using tools installed in the Y6 Facility cleanroom space if and to the extent agreed in a JV Business Plan or by the applicable JV Operating Committee. Any such manufacture of NAND Flash Memory Products (including as to expansion or technology transition) shall be conducted pursuant to the terms of the applicable JV's JV Agreements as if such JV Agreements contemplated the manufacture of NAND Flash Memory Products in the Y6 Facility. Any NAND Flash Memory Products manufactured at the Yokkaichi Facility and that are **** as Y6 lots are referred to as "Y6 NAND Flash Memory Products." "JV Y6 NAND Flash Memory Products" are Y6 NAND Flash Memory Products allocated to a JV under the applicable JV's JV Master Agreement. Allocation of monthly lot output of NAND Flash Memory Products under the JV Master Agreements is hereby amended to include the following: the actual monthly lot output of Y6 NAND Flash Memory Products will be allocated between the Parent Parties in the manner set forth in this Agreement as if all of such output were BiCS Product output from the Y6 Facility; provided, that during any month in which the planned production of NAND Flash Memory Products is **** output will be allocated between the Parent Parties ****.

4. RAMP-UP PROCESS

4.1 Minimum Commitment. Unless otherwise agreed in writing between the Parent Parties, the Parent Parties shall, through the JVs, make the investments necessary for **** L/M in aggregate JV production capacity using the Y6 Facility for BiCS Products, of which (i) **** L/M shall be implemented **** and (ii) **** L/M shall be implemented ****, the investments for both (i) and (ii) to be divided equally between the Parent Parties (the foregoing, as further described below, the "Minimum Commitment").

- (a) ****
- (b) ****

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(c) ****

4.2 Yokkaichi BiCS Expansion. ****

4.3 Other Facility Expansions. ****

4.4 BiCS Conversions and BiCS Technology Transitions. Without limiting TMC's implementation of BiCS Conversions or BiCS Technology Transitions as part of the Phase I Implementation, the JVs shall be given priority for any BiCS Conversion or BiCS Technology Transition. Should any of FPL, FAL or FFL not accept any proposal for a BiCS Conversion or BiCS Technology Transition, the non-rejecting Parent Party may implement such BiCS Conversion or BiCS Technology Transition on its capacity, and ****. Subject to the foregoing priority granted to the JVs, nothing in this Agreement shall in any way limit TMC's ability to implement BiCS Conversions or BiCS Technology Transitions within the Toshiba Capacity, which shall be made in TMC's sole discretion. For the avoidance of doubt, any BiCS Conversion or BiCS Technology Transition involving the use of the New Y2 Facility or the Y6 Facility shall be managed as a technology transition by the Operating Committees in accordance with the JV Agreements and past practices at the Yokkaichi Facility.

4.5 Failure to Invest.

(a) Minimum Commitment. If WD fails for any reason to make (or authorize the JVs to make) the investment necessary to implement its 50% share of the Minimum Commitment ****, then ****

(b) Ramp-Up Commitment. If a Parent Party fails for any reason to make (or authorize the JVs to make) the investment necessary to implement its 50% share of a Ramp-Up Commitment, then the other Parent Party (so long as it has made and authorized the investment necessary to implement its 50% share of the Minimum Commitment) may ****.

4.6 Phase I Investment Cost Sharing. With respect to TMC's unilateral implementation of its share of the Phase I Investment:

4.7 Iwate Facility. The Parent Parties will discuss in good faith WD's participation in BiCS Expansions, BiCS Conversions and BiCS Technology Transitions at TMC's fabrication facility under construction in Iwate, Japan (the "Iwate Facility"). Without limiting Sections 4.3 and 4.4, ****, the terms for any BiCS Expansion, BiCS Conversion or BiCS Technology Transition at the Iwate Facility (including with respect to cost allocations) shall, except as set forth below, be substantially the same as the terms that apply to the manufacture of BiCS Products at the Yokkaichi Facility under the Master Operative Documents. The parties acknowledge and agree that the foregoing terms shall be reasonably adjusted if the Parent Parties' respective investment levels in the Iwate Facility ****. Some terms may be subject to

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good faith discussions regarding reasonable adjustments from the terms that apply to the manufacture of BiCS Products at the Yokkaichi Facility given the site-specific attributes of the Iwate Facility. WD's participation in any BiCS Expansion, BiCS Conversion or BiCS Technology Transition at the Iwate Facility shall be subject to the Parent Parties' agreement on one or more written definitive agreements that set forth the terms and conditions applicable to WD's participation in the Iwate Facility, including those described in this Section 4.7.

4.8 Prior Agreement. Sections 4.2, 4.3 and 4.4 hereof supersede and replace Sections 4.2, 4.3 and 4.4 of the New Y2 Agreement, respectively, from the date hereof.

5. BiCS PRODUCTS PRIORITY

5.1 ****

5.2 ****

5.3 Prior Agreement. This Article 5 supersedes and replaces Section 5.1 of the New Y2 Agreement from the date hereof.

6. Y6 OPERATING COMMITTEE

6.1 Committee Purpose and Authority. There will be an Operating Committee for Y6 Facility operations (the "Y6 Operating Committee") consisting of a senior executive designated by each of WD and TMC (each such individual, the "WD Representative" and the "TMC Representative," respectively), each of whom shall have an engineering background and represent the designating Party on a day-to-day basis at the Y6 Facility. The Y6 Operating Committee shall work together and endeavor to make the Y6 Facility the most advanced and competitive memory fabrication facility in the world. The Y6 Operating Committee will have the authority to determine all JV-related matters concerning the day-to-day operations of the Y6 Facility (including staffing matters as provided in Article 7), subject to the requirements of this Agreement and consistent with past practice at the Yokkaichi Facility.

6.2 Parent Party Representatives.

(a) Replacement. Each Parent Party shall notify the other Parent Party in advance of any replacement of its representative on the Y6 Operating Committee. If a Parent Party requests in good faith that the other Parent Party's representative be replaced with another person from the other Parent Party's organization, the other Party shall consider and discuss in good faith with the requesting Parent Party such request, provided, that such replacement, if any, may be determined solely by such other Parent Party.

(b) ****

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6.3 Committee Meetings. The Y6 Operating Committee shall communicate on a day-to-day basis with respect to the status of Y6 Facility operations and any other issues that may arise and shall meet in person no less than one time per week, or such other times and frequency as mutually agreed by all members of such committee. The Y6 Operating Committee shall hold a monthly review meeting in English at the Yokkaichi Facility on the **** of each calendar month, unless otherwise agreed by the Y6 Operating Committee. The Y6 Operating Committee shall prepare and distribute to the Parent Parties (at least three Business Days in advance of the Y6 Operating Committee's monthly review meetings) monthly reports in English with respect to the engineering activities, operations and cost information of the Y6 Facility.

6.4 Dispute Resolution. If the members of the Y6 Operating Committee are unable to agree on any issue after **** (by agreement of its two members), they shall submit such matter together with their respective recommendations to the applicable Board of Directors or Board of Executive Officers of the applicable JV(s), which shall endeavor to immediately resolve the issue or escalate such issue, as applicable in the manner set forth in the applicable JV Master Agreement.

7. ENGINEERS AND HEADCOUNT PLAN

7.1 Y6 JV Engineers; Personnel. As used in this Agreement:

- (a) "Y6 JV Engineers" means ****;
- (b) "TMC Personnel" means ****;
- (c) "WD Personnel" means ****;
- (d) "Personnel" means ****; and
- (e) "WD Team" means ****.

7.2 Y6 JV Headcount Plan. ****.

7.3 Staffing. ****.

7.4 Integration; Headcount Working Group. Integration of the WD Team into the Y6 Facility organization, organization structure, updates on the hiring of Y6 JV Engineers by WD or TMC (or their respective Affiliates), access to the Y6 Operating Committee, WD Team member communications with WD, **** and related matters will be discussed by the Headcount Working Group (as defined in the FFL Master Agreement), as applicable, and, subject to and without any limitation on the effect of the Information Security Agreement as applicable, provided for and resolved in the manner set forth in the FFL Master Agreement with respect to personnel at the Y5 Facility, except that matters to be handled by the Y5 Operating Committee will be handled instead by the Y6 Operating Committee.

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7.5 WD Team. With respect to the WD Team, subject to and without any limitation on the effect of the Information Security Agreement, the Parties agree as follows:

(a) Language Skills. Recognizing that Japanese language skills will be necessary for personnel working at the Y6 Facility, WD shall seek to minimize the number of Y6 JV Engineers seconded by WD or any of its Affiliates to the Y6 Facility who are not highly proficient in Japanese, and WD shall ensure that those members of the WD Team who are not Japanese speakers receive some language training in Japanese at WD's cost before being sent to work at the Y6 Facility and WD shall use commercially reasonable efforts to ensure that such language training is appropriate to such WD Team member's position at the Y6 Facility.

(b) Reimbursement; Conditions. WD's and its Affiliates' Y6 JV Engineers shall be integrated by TMC at the Yokkaichi Facility and shall work together with TMC's and its Affiliates' Y6 JV Engineers to seek to ensure the optimal operation of the Y6 Facility from a cost and technology perspective. ****

(c) WD Personnel. ****

(d) ****

(e) ****

(f) ****

(g) Employment Relationship. All members of the WD Team will remain employees of WD (or the WD Affiliate, as applicable).

7.6 Indemnification. Each Parent Party will indemnify the other Parties from any claim by any of such Parent Party's or its Affiliate's employees, consultants or agents (such Parent Party being the "Employer") (a) based on other than willful misconduct of such Employer or its Affiliate, its or its Affiliate's employees, consultants or agents or (b) that he or she has rights, or is owed obligations, as an employee of the Party that is not the Employer or its Affiliate.

7.7 Other Personnel. ****

8. MANUFACTURING COSTS

8.1 Y6 Manufacturing Costs. "Y6 Manufacturing Costs" means ****

(a) ****

(b) ****

(c) ****

(d) Manufacturing Cost Reconciliation. Within **** after the end of each JV fiscal quarter, TMC shall perform the manufacturing cost reconciliations of **** Charges and **** Charges, in each case as described above (together, the "Quarterly Manufacturing Cost Reconciliation"). TMC personnel at the Y6 Facility shall provide a forecast of the Quarterly Manufacturing Cost Reconciliation to the JVs and WD every month.

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8.2 Y6 Manufacturing Cost Allocation Framework. Y6 Manufacturing Costs shall be shared by the Parties and shall be either Y6 Fixed Manufacturing Costs or Y6 Variable Manufacturing Costs, in each case as determined in the manner set forth in this Article 8. ****

8.3 Y6 Manufacturing Cost Allocation Methodology.

(a) ****

(b) ****

(c) Y6 Manufacturing Costs allocated to Y6 Products will be further allocated as set forth in Section 8.4(b).

(d) Within **** after the end of each JV fiscal quarter, TMC shall provide to WD a reconciliation of the allocation of Y6 Manufacturing Costs that reflects **** during the fiscal quarter. TMC personnel at the Y6 Facility will provide a forecast of such quarterly reconciliation to the JVs and WD every month.

(e) In the event that there is **** circumstances warrant a deviation from the allocation methodology set forth in Sections 8.3(a) through 8.3(d), then the Parent Parties shall ****

8.4 Y6 Product Manufacturing Costs.

(a) “Y6 Product Manufacturing Costs” means ****

(b) All Y6 Product Manufacturing Costs will be either Y6 Product Fixed Manufacturing Costs or Y6 Product Variable Manufacturing Costs.

(i) Y6 Product Fixed Manufacturing Costs. “Y6 Product Fixed Manufacturing Costs” means ****

(ii) Y6 Product Variable Manufacturing Costs. “Y6 Product Variable Manufacturing Costs” means ****

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8.5 Accounting and Cost Methodology. Y6 Manufacturing Costs methodology will in principle be in accordance with the existing accounting and cost methodology used by the JVs in the Yokkaichi Facility.

8.6 No Duplication of Costs or Expenses. It is the intent of the Parties that any payments made by the Parties under or pursuant to any Master Operative Document shall not be duplicative and that the Parties shall in no event be required to pay or contribute more than once for any service, product or development work provided under the Master Operative Documents, if such service, product or development work is provided under more than one Master Operative Document. In addition, to the extent that a Party makes a direct payment for any service, product or development work under a Master Operative Document, the cost incurred by TMC (from the Yokkaichi Facility) or the JVs, as the case may be, in connection with the provision of such service, product or development work shall not be included in the applicable wafer price charged to such Party.

9. FOUNDRY AND PURCHASE AND SUPPLY ARRANGEMENTS

9.1 Y6 Foundry Arrangements.

(a) Die Sort, Equipment and Raw Materials. Die sorting facilities will be located at **** or such other place mutually agreed by the Parent Parties. TMC's use of any of FPL's, FAL's and FFL's manufacturing equipment located in the Y6 Facility in the manufacture of BiCS Products will be governed by the FPL Lease Agreement, the FAL Lease Agreement and the FFL Lease Agreement, respectively. TMC shall be responsible for obtaining the raw materials and services to be used in the manufacture of JV Y6 Products.

(b) Foundry Production. TMC shall manufacture BiCS Products at the Y6 Facility for the JVs as ordered by the JVs pursuant to the Foundry Agreements. TMC (from the Yokkaichi Facility) and the JVs shall use their best efforts to achieve the manufacturing capacity set forth in the JV Business Plans, which will include any plans for JV use of cleanroom space in the Y6 Facility. Wafers produced in the Y6 Facility will be sorted between the Parent Parties such that aggregate yield losses will be shared on an equal basis.

(c) Operating Relationship. The Parent Parties shall provide personnel necessary for the manufacture of BiCS Products for and on behalf of the JVs as described in Article 7.

(d) Consideration to be Paid to TMC. TMC shall be compensated by the JVs as provided in the Foundry Agreements, ****

9.2 Purchase and Supply Agreements. For the avoidance of doubt, the rights, obligations and procedures for the purchase by the Parent Parties from FPL, FAL and FFL of JV BiCS Products manufactured in whole or in part at the Y6 Facility shall be as set forth in the FPL Purchase and Supply Agreements, the FAL Purchase and Supply Agreements and the FFL Purchase and Supply Agreements, respectively, of TMC (in the case of TMC) and the applicable SanDisk party (in the case of WD).

9.3 Equal Right to JV Production. For the avoidance of doubt, TMC, on one hand, and WD and SanDisk, on the other hand, shall have the right and obligation, through the JVs, to utilize 50% of the manufacturing capacity for JV BiCS Products manufactured in whole or in part at the Y6 Facility, on an Equivalent Lot basis, as provided in the JV Master Agreements.

9.4 Y6 Product Output Allocation. The actual monthly lot output of Y6 Products shall be allocated among the JVs, TMC and WD, as applicable, based on the Y6 Capacity Ratio; provided, that during any month in which the planned production capacity of Y6 Products is ****, TMC and WD will be allocated output of such Y6 Products ****.

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9.5 Alternative Use of Allocated Capacity. For the avoidance of doubt, any alternative use of a Party's allotted manufacturing capacity for JV BiCS Products within the Y6 Facility will be as permitted in, and subject to and governed by the terms of, the applicable JV's JV Master Agreement.

10. RESEARCH AND DEVELOPMENT

10.1 ****

10.2 ****

10.3 ****

10.4 ****

10.5 No Change to Common R&D. Except as set forth in this Article 10, or as may be otherwise agreed in writing between the Parties, the Common R&D Agreement shall continue in full force and effect in accordance with its terms, and the agreements regarding equipment, materials and development provided for in the Common R&D Agreement shall continue to be part of the Common R&D Agreement.

11. Y6 INFORMATION AND DATA SHARING

11.1 Management and Operating Reports. Upon the request of either TMC or WD, the Y6 Operating Committee shall provide TMC and WD with, simultaneously in Japanese and English, those management and operating reports identified on Schedule 11.1 and as mutually agreed upon from time to time by the Parent Parties. Upon reasonable request from WD, TMC employees shall explain such reports to employees of WD and its Subsidiaries and respond to questions from employees of WD and its Subsidiaries; provided, however, that WD acknowledges and agrees that TMC will not be responsible for WD's or any of its Subsidiaries' failure to understand any such reports.

11.2 Production Control; Access to Y6 Data. TMC shall provide, consistent with past practice, employees of WD and its Subsidiaries ****; provided, that the cost necessary for making such system available to such employees will be borne by ****. Each Party will be provided the same real-time access to Y6 data relating to JV Products.

11.3 Engineering Wafers. Each of the Parent Parties will have full access to all operational and engineering data and reports related to engineering wafers manufactured for JV Products manufactured at the Y6 Facility.

11.4 Unilateral Capacity Data. For any Toshiba Capacity in the Y6 Facility, TMC shall provide to the JVs all data necessary to determine whether the Toshiba Capacity is being operated ****, including but not limited to ****.

11.5 ****

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12. OTHER MODIFICATIONS TO CERTAIN MASTER OPERATIVE DOCUMENTS

To update their agreement as expressed in certain of the Master Operative Documents to, among other things, take into account the Y6 Facility and to provide for the installation of tools and utilization of clean room space by each of the JVs within the Y6 Facility, the Parties agree that the Master Operative Documents are hereby amended as set forth below.

12.1 JV Master Agreements.

(a) Proprietary Flash Products. The rights of each Parent Party under the JV Agreements to use a portion of its total allocated capacity in the Y3 Facility, the Y4 Facility and from the JV Space in the Y5 Facility and the New Y2 Facility to cause to be manufactured Proprietary Flash Products, subject to the conditions and limitations set forth in the JV Agreements, are hereby extended to the JV Space in the Y6 Facility. Each Parent Party may use a portion of its total allocated capacity from the JV Space in the Y6 Facility to cause to be manufactured Proprietary Flash Products, subject to each of the limitations, conditions and Parent Party undertakings in respect of Proprietary Flash Products provided under the applicable JV Master Agreement, as amended by the New Y2 Agreement, for the manufacture of Proprietary Flash Products in the Yokkaichi Facility. If a Parent Party requests a modification to the limitations, conditions and undertakings for the manufacture of Proprietary Flash Products, the Parent Parties will discuss such requested modification.

(b) Engineering Wafers. The rights of the Parent Parties to receive Evaluation Wafers and Qualification Wafers (each as defined in the JV Master Agreements) under the JV Master Agreements apply to Evaluation Wafers and Qualification Wafers manufactured in the Y6 Facility. For the avoidance of doubt, WD may ship its share of Evaluation Wafers and Qualification Wafers to any location in its sole discretion subject to any terms and conditions of the Master Operative Documents that relate or apply to the shipment of Evaluation Wafers or Qualification Wafers by SanDisk, including applicable export control requirements; provided, that any such shipment by WD shall comply with applicable shipping procedures at the Yokkaichi Facility consistent with past practice.

(c) Y3, Y4, Y5 and New Y2 Capacity Ratios. The capacity ratios used to calculate output and cost allocation for the Y3 Facility, the Y4 Facility, the Y5 Facility and the New Y2 Facility as set forth in Schedule 12.2(d) to the New Y2 Agreement are hereby replaced with the capacity ratios initially set forth on Schedule 12.1(c) to this Agreement and updated from time to time by the Parent Parties as mutually agreed.

(d) ****

(e) Ramp Down; Termination Capacity. For the avoidance of doubt, with respect to the obligations of the Parent Parties under (i) Sections 8.1(d)(i), 8.1(e)(i), and 8.1(f)(i) of the FAL Master Agreement, (ii) Sections 8.1(d)(i), 8.1(e)(i), and 8.1(f)(i) of the FPL Master Agreement and (iii) Sections 9.1(d)(i) and 9.1(f)(i) of the FFL Master Agreement to continue to manufacture NAND Flash Memory Products and BiCS Products in the event of a termination of such JV Master Agreement under the circumstances described therein, the Termination Capacity

for NAND Flash Memory Products and the Termination Capacity for BiCS Products shall take into account the Requesting Party's (as defined in the applicable JV Master Agreement) NAND Flash Memory Products capacity allocation and BiCS Products capacity allocation, respectively, available from the applicable JV in the Y6 Facility.

12.2 JV Operating Agreements; Management and Operating Reports. The management and operating reports identified on Schedule 5.3 to each JV Operating Agreement will take into account any utilization by FPL, FAL and FFL, as applicable, of the JV Space in the Y6 Facility.

12.3 JV Foundry Agreements.

(a) The reference to JV Y5 NAND Flash Memory Products in Article 5 of the FFL Foundry Agreement is hereby revised to include JV Y6 BiCS Products manufactured for FFL.

(b) Purchases from TMC by:

(i) FPL of JV Y6 BiCS Products manufactured for FPL shall be made in accordance with the terms of the FPL Foundry Agreement for purchases of Products (as defined therein), provided, that the purchase prices and manufacturing costs for JV Y6 BiCS Products manufactured for FPL shall be calculated and allocated in accordance with Article 8 hereof;

(ii) FAL of JV Y6 BiCS Products manufactured for FAL shall be made in accordance with the terms of the FAL Foundry Agreement for purchases of Products (as defined therein), provided, that the purchase prices and manufacturing costs for JV Y6 BiCS Products manufactured for FAL shall be calculated and allocated in accordance with Article 8 hereof; and

(iii) FFL of JV Y6 BiCS Products manufactured for FFL shall be made in accordance with the terms of the FFL Foundry Agreement for purchases of Products (as defined therein), provided, that the purchase prices and manufacturing costs for JV Y6 BiCS Products manufactured for FFL shall be calculated and allocated in accordance with Article 8 hereof.

(c) ****

12.4 JV Purchase and Supply Agreements.

(a) The capitalized term “Products” in the FFL Purchase and Supply Agreements is hereby revised to include JV Y6 BiCS Products manufactured for FFL in accordance with the Purchase Specification as hereinafter defined.

(b) Purchases by TMC or WD from:

(i) FPL of JV Y6 BiCS Products manufactured for FPL shall be made in accordance with the terms of the TMC’s (in the case of TMC) and SanDisk Cayman’s (in the

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case of WD, as if WD were SanDisk Cayman) FPL Purchase and Supply Agreement for purchases of Products (as defined therein), provided, that with respect to such purchases of JV Y6 BiCS Products manufactured for FPL, any price or charge that is calculated or determined under Article 4 (“Purchase Prices of Products; Title Transfer”) of the FPL Purchase and Supply Agreement based on Article 4 of the FPL Foundry Agreement shall instead be based on Article 8 hereof;

(ii) FAL of JV Y6 BiCS Products manufactured for FAL shall be made in accordance with the terms of the TMC’s (in the case of TMC) and SanDisk Ireland’s (in the case of WD, as if WD were SanDisk Ireland) FAL Purchase and Supply Agreement for purchases of Products (as defined therein), provided, that with respect to such purchases of JV Y6 BiCS Products manufactured for FAL, any price or charge that is calculated or determined under Article 4 (“Purchase Prices of Products; Title Transfer”) of the FAL Purchase and Supply Agreement based on Article 4 of the FAL Foundry Agreement shall instead be based on Article 8 hereof; and

(iii) FFL of JV Y6 BiCS Products manufactured for FFL shall be made in accordance with the terms of TMC’s (in the case of TMC) and SanDisk Flash’s (in the case of WD, as if WD were SanDisk Flash) FFL Purchase and Supply Agreement for purchases of Products (as defined therein) provided, that with respect to such purchases of JV Y6 BiCS Products manufactured for FFL, any price or charge that is calculated or determined under Article 4 (“Purchase Prices of Products; Title Transfer”) of the FFL Purchase and Supply Agreement based on Article 4 of the FFL Foundry Agreement shall instead be based on Article 8 hereof.

(c) ****

12.5 JV Lease Agreements. All references to Y3 NAND Flash Memory Products in the FPL Lease Agreement are hereby revised to include JV Y6 BiCS Products manufactured for FPL. All references to Y4 NAND Flash Memory Products in the FAL Lease Agreement are hereby revised to include JV Y6 BiCS Products manufactured for FAL. All references to Y5 NAND Flash Memory Products, JV Y5 BiCS Products or JV New Y2 BiCS Products in the FFL Lease Agreement are hereby revised to include JV Y6 BiCS Products manufactured for FFL.

13. MEMORY R&D CENTER

13.1 Memory R&D Center. TMC agrees to discuss in good faith the scope of use of the building being constructed by TMC adjacent to the Y6 Facility, known to the Parties as the “Memory R&D Center”, for joint development efforts between TMC and WD and/or other activities related to the operation of the JVs, including development under the Amended JMDY Agreement. For the avoidance of doubt, nothing in this Article 13 shall limit TMC’s right to decide the use and disposition of the Memory R&D Center in its sole discretion except as otherwise agreed by the Parent Parties.

13.2 ****

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(b) the scope of access rights of WD's and its Subsidiaries' personnel to the Memory R&D Center and information related to the Parties' use of the Memory R&D Center for cost sharing purposes; provided, that such access shall be subject to (i) the terms and conditions applicable to safety, site security, and/or information security set forth in the Master Operative Documents, including those set forth in the Information Security Agreement, Section 6.10(b)(vii) of the FFL Master Agreement, Section 7.5(f) of the New Y2 Agreement, Section 1.05(h)(vii) of the JMDY Agreement, Section 7.5(f) of this Agreement, the corresponding provisions in the Undertaking, in each case, as if access by any applicable personnel of WD or any of its Subsidiaries to the Memory R&D Center were access by personnel of WD or any of its Subsidiaries to the applicable building or facility governed by the foregoing terms and conditions and (ii) any other terms and conditions applicable to WD's and its Subsidiaries' personnel's access to the Memory R&D Center as may be mutually agreed by the Parent Parties.

14. CONFIDENTIALITY AND DISCLOSURE

14.1 Public Announcements. Neither Parent Party shall, nor shall it permit any of its Affiliates to, without the prior written consent of the other Parent Party:

(a) issue any public release, announcement or other document, or otherwise publicly disclose any information or make any public statement, concerning the operations of the Y6 Facility that refers to the other Parent Party or any of its Affiliates in connection therewith (other than a general reference to affiliation with the JVs) and (i) concerns the financial condition or results of operations of the JVs, other than as required by any applicable Law or accounting standard with respect to the financial disclosure obligations of either Parent Party, or (ii)(A) disparages either Parent Party or the JVs' performance or (B) reflects negatively on either Parent Party's commitment to the Y6 Facility; or

(b) publicly file all or any part of any New Agreement or any description thereof, or issue or otherwise make publicly available any press release, announcement or other document that contains Confidential Information belonging to the other Parent Party (or its Affiliates) or the JVs, except as may be required by applicable Law (in which case such Parent Party shall (or shall cause the Person required to make such filing to) cooperate with the other Parent Party, to the extent reasonable and practicable, in obtaining any confidential treatment for such filing requested by the other Parent Party).

Each Parent Party shall use commercially reasonable efforts to grant or deny any approval required under this Section 14.1 within five Business Days of receipt of written request by the other Parent Party; provided, however, that a Parent Party's failure to respond within said time period shall not be deemed to constitute such Parent Party's approval or consent.

14.2 Non-Disclosure Obligations.

(a) For a period of **** from the date of receipt of each item of Confidential Information disclosed by one Party (the "Disclosing Party") under this Agreement, the Patent Indemnification Termination Agreement or the Y6 MCEIA, the other Party (the "Receiving Party") shall safeguard such item of Confidential Information, shall keep it in confidence, and

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shall use reasonable efforts, consistent with those used in the protection of its own confidential information, to prevent its disclosure of such Confidential Information to third parties.

(b) Notwithstanding the foregoing Section 14.2(a), the Receiving Party shall not be obligated by this Section 14.2 with respect to information that: (i) is already known to the Receiving Party at the time of its receipt from the Disclosing Party as reasonably evidenced by its written records; (ii) is or becomes publicly available without breach of this Agreement by the Receiving Party; (iii) is made available to a third party by the Disclosing Party without restriction on disclosure; (iv) is rightfully received by the Receiving Party from a third party without restriction and without breach of this Agreement; (v) is independently developed by the Receiving Party as reasonably evidenced by its written records contemporaneous with such development; (vi) is disclosed with the prior written consent of the Disclosing Party, provided, that each recipient from the Receiving Party shall execute a confidentiality agreement prohibiting further disclosure of the Confidential Information, under terms no less restrictive than those provided in this Agreement; (vii) is required to be disclosed by the order of a Governmental Authority, provided, that the Receiving Party shall give the Disclosing Party prompt notice of such request so that the Disclosing Party has an opportunity to defend, limit or protect such disclosure; or (viii) is required to be disclosed by applicable securities or other Laws, provided, that WD shall, prior to any such disclosure required by the U.S. Securities and Exchange Commission, provide TMC with notice which includes a copy of the proposed disclosure and consider in good faith TMC's timely input with respect to such disclosure.

(c) The Receiving Party shall use its reasonable best efforts to limit dissemination of the Disclosing Party's Confidential Information to such of its employees who have a need to know such information for the purpose for which such information was disclosed. The Receiving Party understands that disclosure or dissemination of the Disclosing Party's Confidential Information not expressly authorized hereunder would cause irreparable injury to the Receiving Party, for which monetary damages would not be an adequate remedy and would entitle the Disclosing Party to equitable relief in addition to any remedies the Disclosing Party may have hereunder or at law.

(d) For purposes of the confidentiality obligations in the Existing Agreements and the New Agreements, information shall not be considered to have been made available to a third party by the Disclosing Party without restriction on disclosure if such information was only made available to such third party as a result of an inadvertent or unintentional disclosure of such information by the Disclosing Party. In the event that the Disclosing Party's disclosure of Confidential Information to the Receiving Party is inadvertent or unintended and the Disclosing Party, upon becoming aware of such inadvertent or unintended disclosure, promptly notifies the Receiving Party in writing that such disclosure was inadvertent or unintended, the Receiving Party shall promptly (and in any event in less than *****) destroy all such Confidential Information. In addition, if the Receiving Party reasonably believes that the Disclosing Party's disclosure of Confidential Information to the Receiving Party was inadvertent or unintended, the Receiving Party shall promptly notify the Disclosing Party of such belief and, if requested by the Disclosing Party, promptly (and in any event in less than *****) destroy all such Confidential

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Information. If requested by the Disclosing Party, the Receiving Party shall certify in writing that all such Confidential Information has been destroyed.

(e) Nothing in this Agreement shall be construed as granting or conferring any rights, licenses or relationships by the transmission of the Confidential Information.

14.3 Ownership and Return of Information. All Confidential Information disclosed hereunder shall remain the property of the Disclosing Party. Upon request by the Disclosing Party, the Receiving Party shall return all Confidential Information of the Disclosing Party, including any and all copies thereof, or certify in writing that all such Confidential Information had been destroyed.

15. TERM AND TERMINATION

15.1 Term. This Agreement shall continue in full force and effect until the latest of the termination of (a) the FPL Master Agreement, (b) the FAL Master Agreement and (c) the FFL Master Agreement, unless earlier terminated as hereinafter provided. The term of this Agreement may be extended by mutual agreement of both Parent Parties.

15.2 Termination. Notwithstanding the foregoing Section 15.1, this Agreement may be terminated:

(a) by the mutual written agreement of the Parties, in which case this Agreement will terminate on the date mutually agreed by the Parties;

(b) by either Parent Party upon **** written notice to the other Parent Party, if (i) (A) the other Parent Party has failed to make (or authorize the JVs to make) the investment necessary to implement its share of the Minimum Commitment **** or (B) has failed to pay ****, and (ii) TMC (in the case of termination by TMC), or WD or SanDisk (in the case of termination by WD) is not in material breach of any material Master Operative Document; or

(c) by either Parent Party, upon written notice to the other Parent Party, if the other Parent Party (i) makes an assignment of all or substantially all its assets for the benefit of creditors, (ii) has filed a voluntary petition in bankruptcy or insolvency or any other legal action or document seeking reorganization, readjustment or arrangement of its business under any Law relating to bankruptcy or insolvency, or (iii) is adjudicated to be bankrupt or insolvent under any such Law, or has a receiver appointed over all or substantially all of its property, by a competent Governmental Authority; in which case of (i), (ii) or (iii), this Agreement will terminate on the 30th day after such notice of termination is given.

15.3 Termination for Material Breach. The Parent Parties agree and acknowledge that in the event of a final determination by an arbitral tribunal under Section 17.4 that a Parent Party has committed or is committing a continuing material breach of any of Sections **** of this Agreement or Sections **** of the New Y2 Agreement (by TMC, in the case of TMC, or by SanDisk, in the case of WD) that **** (any such breach, a "Material Breach"), and the breaching Parent Party fails to cure such breach within **** after such determination, then the non-

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breaching Parent Party shall have as a remedy for Material Breach the termination of this Agreement, in addition to all other legal and equitable remedies available to such Parent Party. In the event that a Parent Party expressly asserts in writing a Material Breach, the dispute shall proceed as specified in Section 17.4, provided, however, that

(a) no matters other than the existence of such Material Breach (and counterclaims and defenses directly related to the conduct or circumstances underlying the asserted Material Breach) shall be submitted to or determined by the arbitral tribunal;

(b) the Parent Parties shall use their respective reasonable best efforts to complete and finalize the Terms of Reference within **** following such assertion of Material Breach; and

(c) the Parent Parties shall instruct the arbitral tribunal, with the full assistance and cooperation of the Parent Parties, to endeavor to submit its draft award on the existence of the Material Breach to the Court of Arbitration of the ICC for approval within **** following the effective date of the Terms of Reference, provided, that any failure to issue an award in such time period shall not be considered a defense or objection to the enforcement of such an award.

The Parent Parties agree to attempt in good faith to resolve any potential claim for Material Breach. Notwithstanding anything to the contrary in the New Y2 Agreement, the Parent Parties and SanDisk acknowledge and agree that in the event of a final determination by an arbitral tribunal in accordance with this Section 15.3 that a Parent Party has committed or is committing a continuing material breach of Sections **** of this Agreement that would reasonably be expected to cause material damage to the JVs or the non-breaching Parent Party, such breach shall be deemed a "Material Breach" of the New Y2 Agreement (by SanDisk, in the case of such a material breach of this Agreement by WD) and, if the breaching Parent Party fails to cure such breach within **** after such determination, the non-breaching Parent Party shall have the right to immediately exercise the remedies set forth in Section 14.3 of the New Y2 Agreement without the necessity for further arbitration.

15.4 Termination in Good Faith. Termination of any Master Operative Document by any party thereto may be done only in good faith.

15.5 Survival.

(a) The provisions of Sections 4.5(c), 7.6, and 12.1(e), Article 14 (except Section 14.1(a)(ii)(B)), this Article 15, Article 17 and Exhibit A shall survive any termination or expiration of this Agreement.

(b) So long as (and only for so long as) the Parent Parties have BiCS Products manufacturing capacity in the JVs, the provisions of Sections 3.2(a) (except with respect to the Y6 Facility), 3.3(c), 4.2 (except with respect to the Y6 Facility), 4.3 (except with respect to the Y6 Facility), 4.4 (except with respect to the Y6 Facility), Article 5 (except with respect to the Y6 Facility), Section 10.5, and Article 16 shall also survive any termination or expiration of this Agreement.

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(c) Article 13 shall survive any termination or expiration of this Agreement until the expiration or termination of the Amended JMDY Agreement and shall terminate thereafter.

15.6 Restructuring Costs.

(a) In the event this Agreement is terminated, the Parent Parties will exercise best efforts to plan such termination in advance with the goal of minimizing related costs. With respect to employees of TMC and employees of WD or any of its Subsidiaries working at the Y6 Facility, (A) in the case of those that are employees of TMC or any of its Subsidiaries, TMC will use its best efforts to retrain or relocate such individuals to other TMC facilities, and (B) in the case of those that are employees of WD or any of its Subsidiaries, WD will use its best efforts to retrain or relocate such individuals to other WD facilities, each to the maximum extent possible.

(b) The Parties agree that in the event of such a WD exit from the Y6 Facility,

(c) Upon any termination of this Agreement, the Parties shall meet and discuss in good faith an estimate of the Restructuring Costs anticipated to be incurred by TMC. ****

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15.7 Effect on Other Collaborations. Unless otherwise expressly provided herein, termination of this Agreement shall not affect any surviving rights or obligations set forth in the Joint Operative Documents. For avoidance of doubt, the BiCS LDA and the WD-TMC PCLA (in each case, including the licenses provided thereunder) shall be unaffected by the termination of this Agreement, and the BiCS LDA and the WD-TMC PCLA shall terminate or expire in accordance with each of such agreement's terms.

16. REPRESENTATIONS AND WARRANTIES

Each Parent Party hereby represents and warrants to the other Parent Party as follows:

16.1 Organization and Standing. It is duly organized and validly existing and, where applicable, in good standing under the laws of the jurisdiction in which it is organized.

16.2 Authority; Enforceability. It has the requisite power and authority to enter into the New Agreements, to execute any certificates or other instruments to be executed by it in connection therewith and otherwise carry out the transactions contemplated by the New Agreements. All proceedings required to be taken by it to authorize the execution, delivery and performance of the New Agreements, and any such certificates and instruments, have been properly taken. This Agreement has been duly and validly executed and delivered by it and constitutes a valid and binding obligation of it, enforceable against it in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights generally or the availability of

equitable remedies (regardless of whether enforceability is considered in a proceeding at law or in equity).

16.3 No Conflict. The execution, delivery and performance of the New Agreements and the BiCS LDA by it and its Affiliates do not and will not (a) breach, violate or conflict with any provision of its charter documents as amended to date, or (b) conflict with or violate any Law applicable to it. No consent, approval or authorization of, or filing with, any Governmental Authority, or any other Person, is required to be made or obtained by it in connection with the execution, delivery and performance by it of any New Agreement or the consummation by it of the transactions contemplated thereby.

16.4 Proceedings. Except for any action, claim, investigation or proceeding (i) threatened, asserted, or pending between or among WD and/or any of its Affiliates, on the one hand, and TMC and/or Toshiba, and/or any of its or their Affiliates, on the other hand or (ii) that falls within the scope of any release, waiver, dismissal, or covenant not to sue set forth in the Settlement Agreement, there are no actions, claims, investigations or proceedings pending, or to its knowledge threatened, by or before any Governmental Authority that, if adversely determined, would have a material adverse effect on it or on the conduct of the business of any of the JVs as contemplated in the Master Operative Documents or on its ability to perform any material obligation under any Master Operative Document.

16.5 Litigation; Decrees. Except for any Action threatened, asserted, or pending (i) between or among WD and/or any of its Affiliates, on the one hand, and TMC and/or Toshiba, and/or any of its or their Affiliates, on the other hand or (ii) that falls within the scope of any release, waiver, dismissal, or covenant not to sue set forth in the Settlement Agreement, there are no Actions pending, or, to its knowledge, threatened that (a) are reasonably likely, based on information known to it as of the date hereof, to have a material adverse effect on the conduct of the business of any of the JVs as contemplated by the Master Operative Documents or BiCS LDA or (b) relate to any of the transactions contemplated by the Master Operative Documents or BiCS LDA in a manner which is material to its, any of its Affiliates' or any of the JVs' ability to carry out the transactions contemplated hereby and thereby or which could have a material adverse effect on the conduct of the business of any of the JVs as contemplated in the Master Operative Documents or BiCS LDA. Except for any judgment, order, writ, or decree in connection with any Action (i) between or among WD and/or any of its Affiliates, on the one hand, and TMC and/or Toshiba, and/or any of its or their Affiliates, on the other hand or (ii) that falls within the scope of any release, waiver, dismissal, or covenant not to sue set forth in the Settlement Agreement, there is no judgment, order, writ or decree that substantially restrains its ability to consummate the transactions contemplated by the New Agreements or the BiCS LDA.

16.6 Compliance with Other Instruments. Except (i) as may have been asserted by WD and/or any of its Affiliates, on the one hand, and TMC and/or Toshiba, and/or any of its or their Affiliates, on the other hand or (ii) any default asserted in connection with any Action, claim, investigation or proceeding that falls within the scope of any release, waiver, dismissal, or covenant not to sue set forth in the Settlement Agreement, neither it nor any of its Affiliates that is party to any New Agreement is in default in any material respect in the performance of any

material obligation, agreement, instrument or undertaking to which such Person is a party or by which such Person or any of its properties is bound. Except for any obligation, agreement, instrument or undertaking between or among (i) WD and/or any of its Affiliates, (ii) TMC and/or Toshiba, and/or any of its or their Affiliates, and/or (iii) any of the JVs, there is no such obligation, agreement, instrument or undertaking to which it or any of its Affiliates is a party or by which any of its Affiliates or any of its or their properties is bound, in each case that is reasonably likely to have a material adverse effect on the Parties' use of the Y6 Facility as contemplated by the New Agreements.

16.7 Patents and Proprietary Rights. To its knowledge, it owns or possesses sufficient legal rights to all patents, utility models, trademarks, service marks, trade names, copyrights, applications for any of the foregoing, mask works, software, trade secrets, licenses, information and proprietary rights and processes (collectively, "Intellectual Property") necessary (a) to carry out its or any of its Affiliates' obligations under the Master Operative Documents and (b) for the conduct of the business of any of the JVs as contemplated in the Master Operative Documents, without any conflict with or infringement of the rights of others, except as will not have a material adverse effect on either (a) or (b) above. Except for any communications (i) between or among WD and/or any of its Affiliates, on the one hand, and TMC and/or Toshiba, and/or any of its or their Affiliates, on the other hand, or (ii) in connection with any Action, claim, investigation or proceeding that falls within the scope of any release, waiver, dismissal, or covenant not to sue set forth in the Settlement Agreement, including any communications referenced in Schedule 2.1 of the Settlement Agreement, it has not received any communications alleging that its Intellectual Property violates, or by its or any of its Affiliates entering into the transactions contemplated by the Master Operative Documents, would violate the Intellectual Property of any other Person or entity, which violation could reasonably be expected to have a material adverse effect on either (a) or (b) above.

16.8 Compliance with Laws. It and each of its Affiliates has complied and is complying in all material respects with all Laws, except where the failure to so comply would not have a material adverse effect on its or any of its Affiliates ability to perform its or their obligations under the Master Operative Documents or on the production of BiCS Products as contemplated by the Master Operative Documents.

16.9 Patent Cross Licenses. ****

17. MISCELLANEOUS

17.1 Entire Agreement. This Agreement, together with the exhibit(s) and schedules hereto and the other Master Operative Documents, constitute the entire agreement of the Parties to this Agreement with respect to the subject matter hereof and supersedes all prior written and oral agreements and understandings with respect to such subject matter.

17.2 Undertaking as to Affiliate Obligations. Each Parent Party shall cause all covenants, conditions and agreements to be performed, observed or satisfied by any of its Affiliates that are parties to any New Agreement to be fully and faithfully observed, performed and satisfied by such Affiliate, and shall not cause or permit to exist any breach or default of such covenants,

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conditions or agreements arising from such Affiliate's action or inaction. Nothing in this Section 17.2 shall be construed to create any right in any Person other than the Parties. In the case of an affirmative covenant or other action required of WD or permitted to be taken by WD hereunder or under any other New Agreement, WD may perform or satisfy such affirmative covenant or other action directly or indirectly by causing one or more of its Subsidiaries to fully perform or satisfy such affirmative covenant or other action. Notwithstanding anything to the contrary in any Master Operative Document, if WD consents or agrees to TMC's or any of its Affiliate's taking an action or inaction that is subject to SanDisk's consent or agreement under a Master Operative Document, WD's providing such consent or agreement shall satisfy such requirement for SanDisk's consent.

17.3 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such state without regard to the conflict of laws principles of such state, except where application of Japanese law is mandatory. Each New Agreement shall be governed in accordance with its governing law provision and, in the absence of any such provision, by the first sentence of this Section 17.3.

17.4 Dispute Resolution; Arbitration. Any dispute concerning this Agreement shall be referred to the applicable JV's Management Representatives and handled by them in accordance with the applicable JV Master Agreement. If the Management Representatives cannot resolve such dispute in accordance with the terms of the applicable JV Master Agreement, then such dispute will be settled by binding arbitration in San Francisco, California. The dispute shall be heard by a panel of three arbitrators pursuant to the rules of the International Chamber of Commerce. The awards of such arbitration shall be final and binding upon the parties thereto. Each party will bear its own fees and expenses associated with the arbitration. Filing fees and arbitrator fees charged by the International Chamber of Commerce shall be borne equally by the Parent Parties.

17.5 Remedies.

(a) Except as may otherwise be specifically provided in the New Agreements, the rights and remedies of the parties under this Agreement are cumulative and are not exclusive of any rights or remedies which the parties hereto would otherwise have.

(b) Equitable relief, including the remedies of specific performance and injunction, shall be available with respect to any actual or attempted breach of this Agreement; provided, however, in the absence of exigent circumstances, the Parties shall refrain from commencing any lawsuit or seeking judicial relief in connection with such actual or attempted breach that is contemplated to be addressed by the dispute resolution process set forth in this Agreement until the Parties have attempted to resolve the subject dispute by following said dispute resolution process to its conclusion.

(c) If the due date for any amount required to be paid under any New Agreement is not a Business Day, such amount shall be payable on the next succeeding Business

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Day; provided, that if payment cannot be made due to the existence of a banking crisis or international payment embargo, such amount may be paid within the following 30 days.

(d) IN THE ABSENCE OF ACTUAL FRAUD, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO OR BE REQUIRED TO INDEMNIFY ANY OTHER PARTY OR ANY OF THEIR RESPECTIVE AFFILIATES UNDER THIS AGREEMENT (OR ANY AGREEMENT INTO WHICH THIS PROVISION IS INCORPORATED) FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR INDIRECT DAMAGE OF ANY KIND, (INCLUDING WITHOUT LIMITATION LOSS OF PROFIT OR DATA), WHETHER OR NOT ADVISED OF THE POSSIBILITY OF SUCH LOSS.

17.6 Relationship of the Parties. The Parties are independent contractors and no provision of or action pursuant to any New Agreement shall constitute any Party acting as the direct or indirect agent or partner of the other Party for any purpose or in any sense whatsoever. Nothing contained in this Agreement is intended to, or shall be deemed to, create a partnership or fiduciary relationship between WD and TMC for any purpose. No Party shall take a position contrary to this Section 17.6.

17.7 Official Language. The official language of this Agreement is the English language only, which language shall be controlling in all respects, and all versions of this Agreement in any other language shall not be binding on the parties hereto or nor shall such other versions be admissible in any legal proceeding, including arbitration, brought under this Agreement. All communications and notices to be made or given pursuant to this Agreement shall be in the English language.

17.8 No Implied Licenses. All rights not expressly granted hereunder or under other agreements between the Parties are hereby retained in their entirety by such Party. Moreover, there are no implied grants or licenses hereunder and the only rights or licenses granted to either Party hereunder are limited to those rights and licenses expressly set forth herein.

17.9 Export Laws. No Party shall export or re-export, directly or indirectly, any technical information disclosed hereunder or direct product thereof to any destination prohibited or restricted by the export control regulations of Japan or the United States, including the U.S. Export Administration Regulations, without the prior authorization from the appropriate Governmental Authorities. No Party shall use technical information supplied by any other Party hereunder for any purpose to develop or manufacture nuclear, chemical, biological weapons or missiles (hereafter "weapons of mass destruction"). No Party shall knowingly sell any products manufactured using any other Party's technical information to any third party if it knows that the end-user of the products will use them for the development and/or manufacture of the weapons of mass destruction.

17.10 Definitions; Interpretation.

(a) Certain Definitions. Capitalized terms used but not defined in the main body of this Agreement shall have the meanings assigned to them in Exhibit A. Capitalized terms used but not defined in either of the main body of this Agreement or in Exhibit A shall

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have the meaning ascribed to such terms in the New Y2 Agreement or, if not defined therein, in the FFL Master Agreement.

(b) Treatment of Ambiguities. The Parties acknowledge that each Party has participated in the drafting of this Agreement, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(c) References; Construction. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a Section, Article, Schedule or Exhibit, such reference shall be to a section or article of, or a schedule or exhibit to, this Agreement. The article and section headings contained in this Agreement and the recitals at the beginning of this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement or any other agreement. Any reference made in this Agreement to a statute or statutory provision shall mean such statute or statutory provision as it has been amended through the date as of which the particular portion of the Agreement is to take effect, or to any successor statute or statutory provision relating to the same subject as the statutory provision so referred to in this Agreement, and to any then applicable rules or regulations promulgated thereunder. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed, unless the context clearly indicates to the contrary, to be followed by the words “but (is/are) not limited to.” The words “herein,” “hereof,” “hereunder” and words of like import shall refer to this Agreement as a whole (including its Schedules and Exhibits), unless the context clearly indicates to the contrary. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context indicates is appropriate. Any reference made in this Agreement to another Master Operative Document shall be deemed, unless the context clearly indicates to the contrary, to refer to such Master Operative Document as such Master Operative Document may be amended or supplemented from time to time.

(d) Order of Precedence. To the extent that a provision in this Agreement expressly conflicts with another Master Operative Document, then the provisions of this Agreement will control as to such conflict; provided, however, that unless otherwise provided herein, the provisions of the Master Operative Documents remain in effect.

(e) Other Clarifications. Unless the context clearly indicates the contrary, any reference in this Agreement to (i) actions by, or events relating to, TMC and occurring prior to April 1, 2017 shall refer to actions by, or events relating to, Toshiba, and (ii) rights, obligations, or allocations ascribed to WD hereby, but which are set forth in a Master Operative Document to which WD is not a party, shall refer to the corresponding rights, obligations, or allocations of the applicable SanDisk party to such Master Operative Document, as if WD were named *in lieu* of such applicable SanDisk party. For the avoidance of doubt, (A) nothing herein shall be deemed an assignment or transfer to WD of any rights or allocations ascribed to a SanDisk party in any Master Operative Document and (B) subclause (A) does not alter any rights or obligations of any Party pursuant to the Undertaking.

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17.11 Notices and Contact Information. All notices, reports and other communications to be given or made under this Agreement shall be in writing and shall be deemed received (X) if delivered by hand, courier or overnight delivery service, when delivered, or (Y) if delivered by e-mail, the earlier of: (I) when the recipient, by an email sent to the email address for the sending Party stated in this Section 17.11 or by a notice delivered by another method in accordance with this Section 17.11, acknowledges having received that email (*provided, however*, that an automatic “read receipt” will not constitute acknowledgment of an email for purposes of this Section 17.11(Y)(I)) or (II) when the email is delivered, if followed within two Business Days by delivery of a copy by hand, courier or overnight delivery service, or (Z) if delivered by mail, five days after being mailed by certified or registered mail, return receipt requested, with appropriate postage prepaid, and, in each case, shall be directed to the address of such Party specified below (or at such other address as such Party shall designate by like notice):

(a) If to WD or SanDisk:

Western Digital Corporation
951 SanDisk Drive
Milpitas, CA 95035 USA
Telephone: (408) 801-1000
E-mail: ****
Attention: Executive Vice President, Memory Technology

With a copy to:

Western Digital Corporation
5601 Great Oaks Parkway
San Jose, CA 95119
Telephone: (408) 717-6000
E-mail: ****
Attention: Chief Legal Officer

(b) If to TMC:

Toshiba Memory Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-0023 Japan
Telephone: ****
E-mail: ****
Attention: Memory Division, Vice President

With a copy to:

Toshiba Memory Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-0023 Japan
Telephone: ****
E-mail: ****
Attention: General Manager, Legal Affairs Division

(c) If to any of the JVs, then to each of the addressees at (a) and (b) above.

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17.12 Assignment. Except as separately agreed by the Parties in writing, none of the Parties may transfer this Agreement or any of its rights hereunder (except for any transfer to an Affiliate or in connection with a merger, consolidation or sale of all or substantially all the assets or the outstanding securities of such Party, which transfer will not require any consent of the other Parties hereunder) without the prior written consent of the each of the other Parties (which consent may be withheld by each such other Party in such other Party's sole discretion), and any such purported transfer without such consents will be void.

17.13 Amendment and Waiver. This Agreement may not be amended, modified or supplemented except by a written instrument executed by each Party. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

17.14 Severability. If a term of any New Agreement or the application of any such term is or becomes illegal, invalid or unenforceable in any respect under any jurisdiction, that will not affect (a) the legality, validity or enforceability in that jurisdiction of any other term of the New Agreements or (b) the legality, validity or enforceability in any other jurisdictions of that or any other term of the New Agreements. To the extent permitted by applicable law, the Parties waive any provision of Law that renders any provision of this Agreement invalid, illegal or unenforceable in any respect. Such term shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable comes closest to the intention of the Parties underlying such illegal, invalid or unenforceable provision.

17.15 Counterparts; Effectiveness. This Agreement may be executed in counterparts, each of which shall be binding as of the date first written above, and all of which shall constitute one and the same instrument. Each such counterpart shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. The exchange of copies of this Agreement and of signature pages by facsimile transmission, portable document format (.pdf) or other electronic format shall be deemed to be their original signatures for all purposes. This Agreement shall not become effective until one or more counterparts have been executed by each Party and delivered to the other Parties.

17.16 No Admission. Nothing in this Agreement shall constitute or be used as an admission, acquiescence, acknowledgement, or agreement by anyone as to the merit of any claims or defenses, whether or not asserted in any arbitration or other litigation, except to enforce the provisions of this Agreement or any part of any other agreement expressly amended herein. In addition, nothing in this Agreement shall constitute or be used as an admission in any arbitration, litigation, or other proceeding regarding the interpretation of any other agreement.

[The remainder of this page is intentionally left blank.]

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

WESTERN DIGITAL CORPORATION

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Executive Vice President, Chief
Legal Officer and Secretary

TOSHIBA MEMORY CORPORATION

By: /s/ Yasuo Naruke
Name: Yasuo Naruke
Title: President and Chief Executive Officer

SANDISK LLC

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Sole Manager

FLASH PARTNERS, LTD.

By: /s/ Hideyuki Kobayashi
Name: Hideyuki Kobayashi
Title: President and Chief Executive Officer

SANDISK (CAYMAN) LIMITED

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

FLASH ALLIANCE, LTD.

By: /s/ Atsuyoshi Koike
Name: Atsuyoshi Koike
Title: President and Chief Executive Officer

SANDISK (IRELAND) LIMITED

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

FLASH FORWARD, LTD.

By: /s/ Hideyuki Kobayashi
Name: Hideyuki Kobayashi
Title: President and Chief Executive Officer

SANDISK FLASH B.V.

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

[Signature Page to Y6 Facility Agreement]
Exhibit A-1

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**EXHIBIT A
DEFINITIONS**

“3D Collaboration Agreement” means the 3D Collaboration Agreement, dated as of June 13, 2008, between SanDisk LLC and TMC.

“3D Memory Products” has the meaning set forth in the 3D Collaboration Agreement.

“Action” means a lawsuit, arbitration or other legal proceeding pending by or against or affecting a Party or any of its Affiliates or any of their respective properties.

“Affiliate” means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the Person specified, and “control”, when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing; provided, however, that the term Affiliate (a) when used in relation to any JV or Subsidiary thereof, shall not include the Parent Parties or any Affiliate of either of them, and (b) when used in relation to WD or TMC or their respective Affiliates, shall not include any JV or Subsidiary thereof.

“Agreement” has the meaning set forth in the preamble to this Agreement.

“Amended JMDY Agreement” means that certain Amended and Restated Joint Memory Development Yokkaichi Agreement, dated as of even date herewith, by and between TMC and SanDisk LLC.

“Amendment to FPL Commitment and Extension Agreement” means the Amendment to FPL Commitment and Extension Agreement, dated as of even date herewith, by and among TMC, WD, SanDisk LLC and SanDisk Cayman.

“BiCS Conversion” has the meaning set forth in Section 2.1.

“BiCS Expansions” means ****.

“BiCS LDA” means that certain BiCS License & Development Agreement, dated as of March 1, 2011, by and between TMC and SanDisk LLC.

“BiCS Products” has the meaning set forth for the term “BiCS Memory Products” in the BiCS LDA.

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“BiCS Technology” has the meaning set forth in the BiCS LDA.

“BiCS Technology Transitions” has the meaning set forth in Section 2.1.

“Building Depreciation Prepayment” has the meaning set forth in Section 2.5(a).

“Business Day” means any day (other than a day which is a Saturday, Sunday or legal holiday in the State of California or Japan) on which commercial banks are open for business in the State of California or Tokyo, Japan.

“Common R&D Agreement” means that certain Fifth Amended and Restated Common R&D and Participation Agreement, by and between TMC and SanDisk LLC, dated as of March 1, 2011.

“Confidential Information” means information disclosed in written, recorded, graphical or other tangible form which is marked as “Confidential”, “Proprietary” or in some other manner to indicate its confidential nature, and/or orally or in other intangible form, identified as confidential at the time of disclosure and confirmed as confidential information in writing within thirty (30) days of its initial disclosure.

“Disclosing Party” has the meaning set forth in Section 14.2(a).

“Employer” has the meaning set forth in Section 7.6.

“Equivalent Lot” means ****.

“Existing Agreements” means the JV Agreements and the Joint Operative Documents.

“FAL” has the meaning set forth in the preamble.

“FAL Commitment and Extension Agreement” means the FAL Commitment and Extension Agreement, dated as of even date herewith, by and among TMC, WD, SanDisk LLC and SanDisk Ireland.

“FAL Foundry Agreement” has the meaning set forth for the term “FA Foundry Agreement” in the FAL Master Agreement.

“FAL Lease Agreement” means that certain Equipment Lease Agreement, dated as of July 7, 2006, by and between FAL and TMC.

“FAL Master Agreement” means that certain Flash Alliance Master Agreement, dated as of July 7, 2006, by and among TMC, SanDisk LLC and SanDisk Ireland.

**** Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

“FAL MCEIA” means that certain Flash Alliance Mutual Contribution and Environmental Indemnification Agreement, dated as of July 7, 2006, by and among TMC, SanDisk LLC and SanDisk Ireland.

“FAL Purchase and Supply Agreement” means (i) with respect to TMC, that certain Purchase and Supply Agreement, dated as of July 7, 2006, by and between FAL and TMC, or (ii) with respect to SanDisk Ireland, that certain Purchase and Supply Agreement dated as of July 7, 2006, by and between FAL and SanDisk Ireland.

“FFL” has the meaning set forth in the preamble.

“FFL Commitment and Extension Agreement” means the FFL Commitment and Extension Agreement, dated as of even date herewith, by and among TMC, WD, SanDisk LLC and SanDisk Flash.

“FFL Foundry Agreement” has the meaning set forth for the term “FF Foundry Agreement” in the FFL Master Agreement.

“FFL Lease Agreement” means that certain Equipment Lease Agreement, dated as of October 20, 2015, by and between FFL and TMC.

“FFL Master Agreement” means that certain Flash Forward Master Agreement, dated as of July 13, 2010, by and among TMC, SanDisk LLC and SanDisk Flash.

“FFL MCEIA” means that certain Flash Forward Mutual Contribution and Environmental Indemnification Agreement, dated as of July 13, 2010, by and among TMC, SanDisk LLC and SanDisk Flash.

“FFL Purchase and Supply Agreement” means (i) with respect to TMC, that certain Purchase and Supply Agreement, dated as of March 1, 2011, by and between FFL and TMC, or (ii) with respect to SanDisk Flash, that certain Purchase and Supply Agreement dated as of March 1, 2011, by and between FFL and SanDisk Flash.

“First JV Wafer Out Date” means the date on which the first production of wafers utilizing capacity at the Y6 Facility resulting from the implementation of the Minimum Commitment for a portion of such production’s manufacturing process is completed.

“Foundry Agreements” means the FAL Foundry Agreement, FFL Foundry Agreement and FPL Foundry Agreement.

“FPL” has the meaning set forth in the preamble.

“FPL Commitment and Extension Agreement” means that certain FPL Commitment and Extension Agreement, dated as of October 20, 2015, by and between TMC and SanDisk LLC.

“FPL Foundry Agreement” has the meaning set forth for the term “FP Foundry Agreement” in the FPL Master Agreement.

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“FPL Lease Agreement” means that certain Equipment Lease Agreement, dated as of September 10, 2004, by and between FPL and TMC.

“FPL Master Agreement” means that certain Flash Partners Master Agreement, dated as of September 10, 2004, by and among TMC, SanDisk LLC and SanDisk Cayman, as amended by the FPL Commitment and Extension Agreement.

“FPL MCEIA” means that certain Mutual Contribution and Environmental Indemnification Agreement, dated as of September 10, 2004, by and among TMC, SanDisk LLC and SanDisk Cayman.

“FPL Purchase and Supply Agreement” means (i) with respect to TMC, that certain Purchase and Supply Agreement, dated as of September 10, 2004, by and between FPL and TMC, or (ii) with respect to SanDisk Cayman, that certain Purchase and Supply Agreement dated as of September 10, 2004, by and between FPL and SanDisk Cayman.

“Governmental Authority” means any (a) nation, principality, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or Person and any court or other tribunal); or (d) individual, Person or body (including any stock exchange) exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.

“Information Security Agreement” means that certain Information Security Agreement, dated as of October 20, 2015, by and between TMC and SanDisk LLC.

“Infrastructure Costs” means ****.

“Intellectual Property” has the meaning set forth in Section 16.7.

“JMDY Project” means the joint development project established to cooperate on the development of the pilot line at the Yokkaichi Facility pursuant to the Amended JMDY Agreement and this Agreement.

“Joint Operative Documents” means the Common R&D Agreement, the Product Development Agreement, the 3D Collaboration Agreement, the Amended JMDY Agreement, the JVRA, ****, the Information Security Agreement, the BiCS LDA, the Settlement Agreement, the Undertaking, and the WD-TMC PCLA.

“JV” has the meaning set forth in the Recitals.

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“JV Agreements” means the FAL Master Agreement, the FFL Master Agreement, the FPL Master Agreement, the JV Operating Agreements, the Foundry Agreements, the Purchase and Supply Agreements, the JV Lease Agreements, the JV MCEIAs, the FPL Commitment and Extension Agreement, the New Y2 Agreement, and the New Y2 MCEIA.

“JV BiCS Products” means JV Y3 BiCS Products, JV Y4 BiCS Products, JV Y5 BiCS Products, JV New Y2 BiCS Products and JV Y6 BiCS Products.

“JV BiCS Space” has the meaning set forth in Section 3.2(a).

“JV BiCS Tools” means tools used in the JV BiCS Space of the New Y2 Facility, the Y3 Facility, the Y4 Facility, the Y5 Facility or the Y6 Facility.

“JV Business Plan” has, with respect to a JV, the meaning given to the term “Business Plan” in the respective JV’s JV Master Agreement.

“JV Lease Agreements” means the FPL Lease Agreement, the FAL Lease Agreement and FFL Lease Agreement.

“JV Master Agreements” means the FAL Master Agreement, the FFL Master Agreement and the FPL Master Agreement.

“JV MCEIAs” means the FPL MCEIA, the FAL MCEIA and the FFL MCEIA.

“JV New Y2 BiCS Products” has the meaning set forth in the New Y2 Agreement.

“JV Operating Agreements” means that certain Operating Agreement of Flash Partners, Ltd. dated as of September 10, 2004, as amended by the FPL Commitment and Extension Agreement, that certain Operating Agreement of Flash Alliance, Ltd. dated as of July 7, 2006, and that certain Operating Agreement of Flash Forward, Ltd., dated as of March 1, 2011.

“JV Products” means NAND Flash Memory Products and BiCS Products, in each case manufactured for the JVs.

“JV Space” means JV BiCS Space plus any cleanroom space used for the production of NAND Flash Memory Products by the JVs in the Yokkaichi Facility.

“JV Y3 BiCS Products” has the meaning set forth in the New Y2 Agreement.

“JV Y4 BiCS Products” has the meaning set forth in the New Y2 Agreement.

“JV Y5 BiCS Products” has the meaning set forth in the New Y2 Agreement.

“JV Y6 BiCS Products” has the meaning set forth in Section 3.1(b).

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“JV Y6 Products” means the JV Y6 BiCS Products plus any other products manufactured using Y6 Facility cleanroom space in accordance with Article 3 that are identified **** as Y6 lots and allocated to a JV under the applicable JV’s JV Master Agreement.

“JVRA” means that certain Joint Venture Restructure Agreement, dated as of January 29, 2009, by and among the Parties, the JVs and certain of their respective Affiliates.

“L/M” means either lots per month or Equivalent Lots per month, in each case as mutually agreed by the Parties.

“Law” means all applicable provisions of all (a) constitutions, treaties, statutes, laws (including common law), rules, regulations, ordinances or codes; (b) orders, decisions, judgments, awards or decrees; and (c) requests, guidelines or directives (whether or not having the force of law), in each case of any Governmental Authority of any applicable jurisdiction.

“Management Representatives” has the meaning set forth in the JV Agreements.

“Master Operative Documents” means the Existing Agreements and the New Agreements.

“Material Breach” has the meaning set forth in Section 15.3.

“Memory R&D Center” has the meaning set forth in Section 13.

“Minimum Commitment” has the meaning set forth in Section 4.1.

“NAND Flash Memory Products” has the meaning set forth in the JV Agreements.

“New Agreements” has the meaning set forth in the Recitals.

“New Y2 Agreement” means that certain New Y2 Facility Agreement, dated as of October 20, 2015, by and among TMC, SanDisk LLC, SanDisk Cayman, SanDisk Ireland, SanDisk Flash, FPL, FAL and FFL.

“New Y2 BiCS Products” means BiCS Products manufactured at the Yokkaichi Facility and that are identified **** as New Y2 lots.

“New Y2 Facility” means the production facility within the Yokkaichi Facility described in the New Y2 Agreement.

“New Y2 Products” has the meaning set forth in the New Y2 Agreement.

“New Y2 Unilateral BiCS Expansion” means a Yokkaichi Unilateral BiCS Expansion made within the New Y2 Facility.

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“Non-NAND Products” means any technology or product other than NAND Flash Memory Products.

“Operating Committees” means the Y3 Operating Committee, Y4 Operating Committee, Y5 Operating Committee (each as defined in the JV Agreements), the New Y2 Operating Committee (as defined in the New Y2 Agreement) and the Y6 Operating Committee (as defined in this Agreement).

“Parent Parties” has the meaning set forth in the preamble to this Agreement.

“Parties” has the meaning set forth in the preamble to this Agreement.

“Patent Indemnification Termination Agreement” means the Termination Agreement, dated as of even date herewith, by and among Toshiba, TMC, WD and SanDisk.

“Person” means any individual or entity, including any private or public real estate operating company or real estate investment trust, exempted company, exempted limited partnership, private limited company, corporation, partnership, limited partnership, limited liability company, trust, charitable trust or other legal entity, wherever organized, or any unincorporated association or Governmental Authority.

“Personnel” has the meaning set forth in Section 7.1(d).

“Phase I Implementation” has the meaning set forth in the Recitals.

“Phase I Investment” means the investments described in the Phase I Document.

“Phase I Document” ****

“Product Development Agreement” means the Third Amended and Restated Product Development Agreement, dated as of March 1, 2011, between SanDisk LLC and TMC.

“Proprietary NAND Flash Memory Products” means NAND Flash Memory Products which are proprietary to a Parent Party.

“Proprietary BiCS Products” means BiCS Products that are proprietary to a Parent Party.

“Proprietary Flash Products” means Proprietary NAND Flash Memory Products and Proprietary BiCS Products.

“Purchase and Supply Agreements” means the FPL Purchase and Supply Agreements, the FAL Purchase and Supply Agreements, and the FFL Purchase and Supply Agreements.

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“Quarterly Manufacturing Cost Reconciliation” has the meaning set forth in Section 8.1(d).

“Ramp-Up Commitment” means the investment necessary to implement an agreed BiCS Expansion, BiCS Technology Transition or BiCS Conversion, in each case using the Y6 Facility, as set forth in a JV’s Investment Plan (as defined in the JV Agreements), after the Minimum Commitment has been fulfilled.

“Receiving Party” has the meaning set forth in Section 14.2(a).

“Restructuring Costs” has the meaning set forth in Section 15.6(b)(ii).

“SanDisk” has the meaning set forth in the preamble to this Agreement.

“SanDisk Cayman” has the meaning set forth in the preamble to this Agreement.

“SanDisk Flash” has the meaning set forth in the preamble to this Agreement.

“SanDisk Ireland” has the meaning set forth in the preamble to this Agreement.

“SanDisk LLC” has the meaning set forth in the preamble to this Agreement.

“SEC” means the Securities and Exchange Commission of the United States.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder from time to time.

“Settlement Agreement” means the Confidential Settlement and Mutual Release Agreement, dated as of even date herewith, among Toshiba, TMC, WD and SanDisk.

“Subsidiary” of any Person means any other Person:

- i. more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or
- ii. which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions (equivalent to those generally reserved for the board of directors of a corporation) for such other Person is,

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now or hereafter owned or controlled, directly or indirectly, by such Person, but such other Person shall be deemed to be a Subsidiary only so long as such ownership or control exists; provided, however, that the term Subsidiary, when used in relation to a Party or any of its Affiliates, shall not include any JV or any of the JVs' Subsidiaries (except that, when used in relation to a Party that is a JV, the term Subsidiary shall include such JV's own Subsidiaries).

"Start-Up Costs" has the meaning set forth in Section 2.5(b).

"Start-Up Period" has the meaning set forth in Section 2.5(b).

"TMC" has the meaning set forth in the preamble to this Agreement.

"TMC Personnel" has the meaning set forth in Section 7.1(b).

"TMC Representative" has the meaning set forth in Section 6.1.

"Toshiba" has the meaning set forth in the Recitals.

"Toshiba Capacity" has the meaning ascribed to such term in the JVRA and includes, for the avoidance of doubt, any Toshiba Unilateral Expansion Space (as defined in the FFL Master Agreement) and any Yokkaichi Unilateral BiCS Expansion Space (as defined in this Agreement).

"Undertaking" means the Parent Guarantee and Undertaking as to Collaboration, dated as of even date herewith, entered into by and among WD, Toshiba and TMC, and acknowledged and agreed by SanDisk and the JVs.

"WD" has the meaning set forth in the preamble to this Agreement.

"WD Personnel" has the meaning set forth in Section 7.1(c).

"WD Representative" has the meaning set forth in Section 6.1.

"WD Team" has the meaning set forth in Section 7.1(e).

"WD-TMC PCLA" means the Patent Cross License Agreement, dated as of even date herewith, between WD and TMC.

"Y3 Facility" means the production facility within the Yokkaichi Facility described in the FPL Master Agreement.

**** Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

“Y3 Products” means products manufactured at the Yokkaichi Facility and identified **** as Y3 lots.

“Y4 Facility” means the production facility within the Yokkaichi Facility described in the FAL Master Agreement.

“Y4 Products” means products manufactured at the Yokkaichi Facility and identified **** as Y4 lots.

“Y5 Facility” means the production facility within the Yokkaichi Facility described in the FFL Master Agreement.

“Y5 Products” means products manufactured at the Yokkaichi Facility and **** as Y5 lots.

“Y6 BiCS Products” has the meaning set forth in Section 3.1(b).

“Y6 Capacity Ratio” for either WD or TMC means ****

“Y6 Facility” means the production facility currently under construction, owned by TMC and forming part of the Yokkaichi Facility, including a building shell, cleanroom, and all culverts, piping, ducting and associated infrastructure connecting thereto.

“Y6 Fixed Manufacturing Costs” means the Y6 Manufacturing Costs described on Schedule 8.4(b)(i).

“Y6 JV Engineers” has the meaning set forth in Section 7.1(a).

“Y6 JV Headcount Plan” has the meaning set forth in Section 7.2.

“Y6 Manufacturing Costs” has the meaning set forth in Section 8.1.

“Y6 MCEIA” means that certain Y6 Mutual Contribution and Environmental Indemnification Agreement, dated as of even date herewith, by and among TMC, SanDisk Cayman, SanDisk Ireland and SanDisk Flash.

“Y6 Operating Committee” has the meaning set forth in Section 6.1.

“Y6 Product Fixed Manufacturing Costs” has the meaning set forth in Section 8.4(b)(i).

“Y6 Product Variable Manufacturing Costs” has the meaning set forth in Section 8.4(b)(ii).

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“Y6 Products” means Y6 BiCS Products plus any other products manufactured using Y6 Facility cleanroom space in accordance with Article 3 that are **** as Y6 lots.

“Y6 Unilateral BiCS Expansion” means a Yokkaichi Unilateral BiCS Expansion made within the Y6 Facility.

“Y6 Unilateral BiCS Products” has the meaning set forth in Section 3.1(b).

“Y6 Unilateral Conversion Space” has the meaning set forth in Section 3.2(b)(iii).

“Y6 Unilateral Space” means (i) any Yokkaichi Unilateral BiCS Expansion Space within the Y6 Facility, (ii) ****, (iii) Y6 Unilateral Conversion Space, and (iv) any cleanroom space in the Y6 Facility attributable to NAND Flash production capacity resulting from any NAND Flash unilateral expansions or unilateral technology transitions effected in accordance with this Agreement.

“Y6 Variable Manufacturing Costs” means the Y6 Manufacturing Costs described on Schedule 8.4(b)(ii).

“Yokkaichi Facility” means TMC’s facilities in Yokkaichi Japan, including the New Y2 Facility, the Y3 Facility, the Y4 Facility, the Y5 Facility, the Y6 Facility and TMC’s Asahi facility.

“Yokkaichi BiCS Expansion” has the meaning set forth in Section 4.2.

“Yokkaichi Unilateral BiCS Expansion” has the meaning set forth in Section 4.2(c)(i).

“Yokkaichi Unilateral BiCS Expansion Space” has the meaning set forth in Section 3.2(b)(ii).

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Y6 FACILITY AGREEMENT

by and among

TOSHIBA MEMORY CORPORATION,

WESTERN DIGITAL CORPORATION,

SANDISK LLC,

SANDISK (CAYMAN) LIMITED,

SANDISK (IRELAND) LIMITED,

SANDISK FLASH B.V.,

FLASH PARTNERS, LTD.,

FLASH ALLIANCE, LTD.

and

FLASH FORWARD, LTD.

dated as of

December 12, 2017

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CONFIDENTIAL SETTLEMENT AND MUTUAL RELEASE AGREEMENT

This CONFIDENTIAL SETTLEMENT AND MUTUAL RELEASE AGREEMENT (this “Agreement”) is made as of December 12, 2017 (the “Effective Date”) by and among Toshiba Corporation (“TSB”), Toshiba Memory Corporation (“TMC”), Western Digital Corporation (“WD”), SanDisk LLC, SanDisk (Cayman) Limited (“SanDisk Cayman”), SanDisk (Ireland) Limited (“SanDisk Ireland”), SanDisk Flash B.V. (“SanDisk Flash,” and together with SanDisk LLC, SanDisk Cayman, and SanDisk Ireland, “SanDisk”). TSB, TMC, WD, SanDisk LLC, SanDisk Cayman, SanDisk Ireland and SanDisk Flash, shall each be referred to, individually, as a “Party” and, collectively, as the “Parties.” Certain capitalized terms used herein are defined herein and in Exhibit A of this Agreement.

RECITALS:

WHEREAS, between 2004 and 2011, TSB and SanDisk Corporation (which has since become SanDisk LLC), SanDisk Cayman, SanDisk Ireland, and SanDisk Flash formed the following three joint venture companies: Flash Partners, Ltd., (“FPL”), Flash Alliance, Ltd., (“FAL”), and Flash Forward, Ltd., (“FFL” and together with FPL and FAL, the “JVs”);

WHEREAS, TSB, SanDisk and the JVs, as applicable, entered into various agreements (the “Existing Agreements”) set forth in Exhibit B hereto;

WHEREAS, TSB and TMC claim that, effective on or about April 1, 2017, TSB transferred substantially all of the assets, rights and obligations of its memory business (the “Memory Business”), and its JV Shares, to TMC (such transfer is referenced herein as the “TMC Transfer”);

WHEREAS, TSB engaged in an auction process soliciting bids for a sale of all or a part of TMC, which process ended on September 28, 2017 (the “Auction”);

WHEREAS, TSB and TMC claim that, on or about June 3, 2017, TMC transferred the JV Shares which it had acquired via the TMC Transfer back to TSB (such transfer is referenced herein as the “TSB Transfer”);

WHEREAS, WD and SanDisk claim that, on or about June 28, 2017, TSB and TMC (i) restricted WD and certain of its Subsidiaries, including Western Digital Technologies, Inc., (and its or their employees) from accessing facilities, databases, and information relating to the JVs, and (ii) refused to ship engineering wafers and samples to locations designated by SanDisk, including in Milpitas, California (such restrictions, the “Access Restrictions”);

WHEREAS, on or about August 3, 2017, TMC decided and announced that it will unilaterally invest in manufacturing equipment for the Fab 6 cleanroom at Yokkaichi (the “Fab 6 Unilateral Investment”);

WHEREAS, on September 28, 2017, TSB entered into the Share Purchase Agreement (the “SPA”) with K.K. Pangea (“Pangea”), a Japanese company that will be owned as of the closing of the TMC Sale by certain members of the Bain Consortium, for the sale of all of the shares of TMC, which sale is expected to be consummated by March 31, 2018 (such sale, together with the other transactions contemplated by and on the terms set forth in the SPA and related agreements and instruments, the “TMC Sale”);

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WHEREAS, following consummation of the TMC Sale, Pangea and TMC may merge (the "TMC Merge");

WHEREAS, SanDisk has objected to the TMC Transfer, the Auction, the TMC Sale, and the Fab 6 Unilateral Investment;

WHEREAS, the Parties have commenced the litigation and arbitration proceedings set forth on Exhibit C (together with any motion for a temporary restraining order, preliminary injunction, or other form of injunctive relief, pending or existing, between or among any of the parties to the cases identified in Exhibit C, individually and collectively, the "Proceedings");

WHEREAS, the Parties have agreed to settle the Proceedings; and

NOW THEREFORE, in consideration of the promises, mutual covenants and agreements contained herein and in the Transaction Documents (as defined below), and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Withdrawal and Dismissal of the Proceedings. Within three (3) Business Days after the Effective Date, each Party shall (a) withdraw and seek dismissal of the Proceedings and all claims asserted therein and (b) cooperate in the preparation and filing of appropriate pleadings in the forms attached as Exhibit D to effectuate the withdrawal and dismissal of the Proceedings with prejudice and without costs, with each Party to bear its own attorneys' fees.

2. Releases and Covenants Not to Sue.

2.1 WD and SanDisk Release. WD and SanDisk, in each case on behalf of itself and its Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders, employees, representatives and agents (the "WD Releasees") each hereby releases and forever discharges each of TSB, TMC, their respective Affiliates, and its and their respective successors, assignees, predecessors, officers, directors, shareholders, employees, representatives, attorneys and agents, but, in each case, excluding Bain Capital, any Bain Consortium Member, any Auction Participant and any bank or financial institution (the "TSB Releasees"), from all Claims (i) relating to, arising out of, or in connection with the TMC Transfer, the TSB Transfer, the Auction (including TSB's and TMC's disclosure of confidential information regarding the Memory Business to bidders in the Auction, or their attorneys or consortium partners, for due diligence purposes), acts, omissions, attempts, or efforts to sell or dispose of any or all shares of or interest in TMC, the Access Restrictions, the Fab 6 Unilateral Investment or the TMC Sale, (ii) that were or could have been asserted in the Proceedings, and/or (iii) that were asserted or threatened to be asserted in any of the correspondence set forth in Schedule 2.1. WD and SanDisk, in each case on behalf of itself and the other WD Releasees, covenants not to (and to cause its respective Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders (in their capacity as such), employees, representatives and agents, not to) sue or assert any Claims released in this Section 2.1 against the TSB Releasees in any forum.

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2.2 Covenant Not To Sue.

(a) Subject to Section 2.2(c), WD and SanDisk, in each case on behalf of itself and the other WD Releasers, each covenants not to sue or assert any Claims (whether known or unknown) in any forum against any Bain Consortium Member, any Auction Participant, or any bank or other financial institution relating to, arising out of, or in connection with (i) the TMC Transfer, the TSB Transfer, the Auction (including any receipt of confidential information regarding the Memory Business or the JV Shares for due diligence purposes provided such receipt was covered by a confidentiality obligation), acts, omissions, attempts, or efforts to acquire any or all shares of or interest in TMC, or the TMC Sale, the Access Restrictions, or the Fab 6 Unilateral Investment, and/or (ii) any Claims that were asserted or threatened to be asserted in any correspondence regarding or relating to Toshiba, TMC or the Memory Business, sent by or on behalf of WD, SanDisk, or any of their respective Affiliates, in each case to the extent based on any activities, communications or other matters occurring from January 1, 2017 to the Effective Date.

(b) Subject to Section 2.2(c), WD and SanDisk, in each case on behalf of itself and the other WD Releasers, each covenants not to sue or assert any Claims (whether known or unknown) in any forum against any Bain Consortium Member, any Auction Participant or any bank or other financial institution relating to or arising out of or in connection with ordinary course activities occurring after the Effective Date until the earlier of the closing of the TMC Sale and the termination of the SPA and that are reasonable to effect any matter within the scope of the consents set forth in Section 3, including without limitation the TMC Sale; provided that, for the avoidance of doubt, the covenant set forth in this Section 2.2(b) does not apply to Claims brought against a Bain Consortium Member, any Auction Participant, or any bank or other financial institution, for any acts, omissions, attempts, or efforts thereof, after the Effective Date until the earlier of the closing of the TMC Sale and the termination of the SPA, that constitutes or results in disclosure in breach of an Existing Agreement, or misappropriation by any third party, including any Bain Consortium Member, any Auction Participant or any bank or other financial institution, of trade secrets or other non-public Intellectual Property owned or rightfully possessed by SanDisk or its Affiliates. For the avoidance of doubt, the covenant not to sue herein shall continue in effect after the closing of the TMC Sale or the termination of the SPA but shall not apply with respect to any acts, omissions, attempts, or efforts after the earlier of the closing of the TMC Sale and the termination of the SPA.

(c) Notwithstanding anything to the contrary herein, the preceding covenants not to sue or assert shall not apply and shall be of no force and effect as to any Bain Consortium Member, any Auction Participant or any bank or other financial institution if such Bain Consortium Member, Auction Participant, or bank or other financial institution (or any Person to whom such Bain Consortium Member, Auction Participant, or bank or other financial institution has assigned any of the following Claims) sues or asserts any Claim (whether known or unknown) in any forum against any WD Releaser relating to, arising out of, or in connection with (i) the TMC Transfer, the TSB Transfer, the Auction, the TMC Sale, the Access Restrictions, or the Fab 6 Unilateral Investment and/or (ii) any Claims that were asserted or threatened to be asserted in any correspondence regarding or relating to Toshiba, TMC or the Memory Business, sent by or on behalf of WD, SanDisk, or any of their respective Affiliates, in each case to the

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extent based on any activities, communications or other matters occurring prior to the Effective Date, subject, however, to Section 2.2(f) of this Agreement.

(d) WD and SanDisk, in each case on behalf of itself and the other WD Releasors, shall each execute a mutual release in the form set forth in Exhibit E (with no substantive changes) with any Bain Consortium Member or bank or other financial institution that elects to enter into such mutual release by delivering an executed counterpart not later than the forty-fifth (45th) day after the Effective Date. Each such mutual release shall, upon execution in full, supersede this Section 2.2 with respect to such Bain Consortium Member or such bank or other financial institution, as the case may be.

(e) Any Bain Consortium Member, Auction Participant or bank or other financial institution referenced in Section 2.2 shall be a third party beneficiary under this Agreement, but solely with respect to this Section 2.2 and not any other provision hereunder, and shall be entitled to enforce this Section 2.2 in its entirety in accordance with its terms.

(f) For the avoidance of doubt, none of the foregoing provisions of this Section 2.2 shall apply with respect to any Claim brought to enforce the terms of this Section 2.2.

2.3 TSB and TMC Release. TSB and TMC, in each case on behalf of itself and its Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders, employees, representatives and agents (the “TSB Releasors”) each hereby releases and forever discharges each of WD, SanDisk, their respective Affiliates, and its and their respective successors, assignees, predecessors, officers, directors, shareholders, employees, representatives, attorneys and agents (the “WD Releasees”), from all Claims (i) relating to, arising out of, or in connection with the TMC Transfer, the TSB Transfer, the Auction, acts, omissions, attempts, or efforts to acquire any or all shares of or interest in TMC, the Access Restrictions, the Fab 6 Unilateral Investment or the TMC Sale, (ii) that were or could have been asserted in the Proceedings and/or (iii) that were asserted or threatened to be asserted in any of the correspondence in Schedule 2.1. TSB and TMC, in each case on behalf of itself and the other TSB Releasors, covenants not to (and to cause its respective Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders (in their capacity as such), employees, representatives and agents, not to) sue or assert any Claims released in this Section 2.3 against the WD Releasees in any forum.

2.4 Concurrent Releases with Bain Capital. Concurrent with this Agreement, WD and SanDisk, in each case on behalf of itself and the other WD Releasors, shall each execute the Confidential Settlement and Mutual Release Agreement in the form set forth in Exhibit F (the “Bain Settlement Agreement”) with Bain Capital Private Equity, L.P.; BCPE Pangea Cayman, L.P.; BCPE Pangea Cayman2, Ltd.; Bain Capital Fund XII, L.P.; Bain Capital Asia Fund III, L.P.; and Pangea (together, “Bain Capital”), the execution of which shall be a condition precedent to the effectiveness of this Agreement. Bain Capital shall be a third party beneficiary under this Section 2.4 and shall be entitled to enforce this Section 2.4 in its entirety in accordance with its terms.

2.5 Effect of Dismissals and Releases. The Parties intend that the withdrawals and dismissals contemplated by Section 1, together with the releases contemplated by Sections 2.1 and 2.3, will effect, without limitation, a dismissal and release with prejudice of all Proceedings (including counterclaims)

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pending or threatened between any WD Releasor (as defined above) and any TSB Releasee (as defined above), or between any TSB Releasor (as defined above) and any WD Releasee (as defined above).

2.6 Waiver. Each of WD and SanDisk, on behalf of itself and the other WD Releasors, and each of TSB and TMC, on behalf of itself and the other TSB Releasors, hereby irrevocably and forever waives all rights it may have arising under California Civil Code Section 1542, or any analogous requirement of Law, with respect to the Proceedings and the releases set forth in Sections 2.1 and 2.3. In addition, each of WD and SanDisk, on behalf of itself and the other WD Releasors, and each of TSB and TMC, on behalf of itself and the other TSB Releasors, hereby confirm that they understand that Section 1542 provides that the releases contemplated by Sections 2.1 and 2.3 are intended to and do operate as full and final releases of all claims within the scope of the releases, including all unknown, unsuspected, or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character, and specifically and expressly waives and releases all rights under the provisions of Section 1542 and any like or similar statute or common law doctrine in any jurisdiction. Each of WD and SanDisk, on behalf of itself and the other WD Releasors, and each of TSB and TMC, on behalf of itself and the other TSB Releasors, hereby confirms that it understands that Section 1542 provides that:

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

Each Party acknowledges that it has been fully informed by its counsel concerning the effect and import of this Agreement under California Civil Code Section 1542 and other analogous requirements of Law. Each Party acknowledges that the releases in Sections 2.1 and 2.3 are intended to include in their respective effects, without limitation, claims which they do not know of or suspect exist in their favor and that such releases extinguishes all claims within the scope of the releases. The Parties acknowledge that they are aware that they may hereafter discover facts in addition to or different from those which they now know or believe to be true with respect to the releases set forth in Sections 2.1 and 2.3, but that they intend to, and do hereby, fully, finally and forever settle, release and discharge all Proceedings, and all Claims within the scope of such releases, without regard to the subsequent discovery or existence of different or additional facts.

2.7 No Admission. This Agreement is entered into in order to compromise and settle disputed Claims, without any acquiescence, acknowledgement, or agreement by any Party as to the merit of any Claims or defenses. Neither this Agreement nor any part thereof shall be, or be used as, an admission by anyone, at any time, for any purpose. In addition, without limitation or modification of the provisions set forth in Sections 3.2(a) and 3.2(b) hereof, the inclusion in this Agreement of any consent or approval, or of any requirement to provide consent or approval, by any Party shall not be, or be used as, an admission by anyone that any such consent or approval is required under any Existing Agreement or otherwise.

2.8 Attorneys' Fees and Costs. Each Party shall be responsible for its own costs and attorneys' fees, if any, in connection with this Agreement, including, without limitation, in connection with preparing and filing the dismissals set forth in Section 1.

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3. Consents.

3.1 WD and SanDisk Consents.

(a) Subject to Sections 3.2(a) and 3.2(b), WD and SanDisk each hereby irrevocably consents to, and shall cause its Subsidiaries to irrevocably consent to:

(i) the Transfer of TSB's JV Rights to TMC,

(ii) for the avoidance of doubt and without imposing or implying any additional obligations under any Existing Agreement or any Transaction Document, any future issuances of Equity Interests in TSB, TMC or Pangea or any entity Controlling TMC or Pangea, including in an initial public offering of TMC or Pangea or such Controlling entity on a Qualified Exchange, and any subsequent primary or secondary offering and secondary trading of such Equity Interests in TSB, TMC or Pangea or such Controlling entity,

(iii) any subsequent Change of Control of TMC or Pangea in accordance with Section 3.7, including for purposes of Sections 4.1(a)(ix) and 9.1(a) of each Operating Agreement and Section 5.1(b) of each Master Agreement,

(iv) any Transfer of Equity Interests in TMC or Pangea (or any entity Controlling TMC or Pangea) to any Person, including to members of the Bain Consortium, by TSB or any subsequent transferee of such Equity Interests,

(v) the TMC Sale,

(vi) the TMC Merger,

(vii) the assignment or Transfer to TMC by TSB (or any of its Affiliates) of the Existing Agreements,

(viii) the assignment or Transfer to TMC by TSB of any Intellectual Property owned by TSB (whether solely or jointly) pursuant to any Existing Agreement or the Undertaking and/or any rights and licenses under any Intellectual Property set forth in any Existing Agreement or the Undertaking,

(ix) notwithstanding anything in this Section 3.1 to the contrary, at any time other than the Lien Restricted Period (as defined below), the granting of any first priority Lien to a third party senior lender to secure indebtedness covering or securing (a) any assets of TSB (other than JV Shares), (b) any Equity Interests in or any assets of TMC or any of its Subsidiaries (other than JV Shares), regardless of whether TMC or such Subsidiaries owns any JV Shares or is a party to any Existing Agreement and (c) solely in connection with a pledge of a material portion of those assets of TMC and its Subsidiaries that are not Collaboration Assets, if any, the JV Shares; provided, that no such lender may enforce any Lien securing such indebtedness that would result in a direct or indirect Transfer of JV Shares unless, after giving effect to such enforcement action, a single Person, together with such Person's Subsidiaries, holds or owns all Collaboration Assets held or owned by TMC and its Subsidiaries, as of

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immediately prior to such enforcement; provided further, that no such Lien may be granted on or with respect to JV Rights (other than the JV Shares (pursuant to this Section 3.1(a)(ix)) held by TMC or its Subsidiaries) or the assets, property or rights of the JVs, and

(x) during the period beginning on the Effective Date and ending on the earlier of (x) the termination of the SPA, (y) repayment or refinancing in full of all Pangea Financing Arrangements, and (z) the termination of all Pangea Financing Arrangements prior to any drawdown thereof (the "Lien Restricted Period"), the granting of any first priority Lien to a third party senior lender to secure indebtedness that is a Pangea Financing Arrangement covering or securing (a) any Equity Interests in or assets of Pangea, TMC or any of their respective Subsidiaries (in each case, other than the JV Shares), regardless of whether Pangea, TMC or any of their respective Subsidiaries owns any JV Shares or is a party to any Existing Agreement and (b) JV Shares held directly or indirectly by TMC or its Subsidiaries; provided, that, in connection with the TMC Sale, consent under this Section 3.1(a)(x)(b) shall not be deemed given unless and until Bain Capital provides WD with written notice that it is satisfied, in Bain Capital's sole discretion, with the terms of the senior financing being provided to finance the TMC Sale, and provided further, that no such Lien may be granted on or with respect to JV Rights (other than the JV Shares (pursuant to this Section 3.1(a)(x)) held by TMC or its Subsidiaries) or the assets, property or rights of the JVs. Bain Capital shall be a third party beneficiary under this Section 3.1(a)(x) and shall be entitled to enforce this Section 3.1(a)(x) in its entirety in accordance with its terms.

(b) For clarity, (i) subject to Sections 3.2(a) and 3.2(b), the consents set forth in Section 3.1(a) satisfy any requirement to obtain the consent of SanDisk or any of its Affiliates pursuant to any Existing Agreement with respect to the matters set forth in Section 3.1(a) and (ii) the consents set forth in Section 3.1(a), subject to Sections 3.2(a) and 3.2(b), with respect to a Transfer or issuance of Equity Interests in TMC, Pangea or any entity Controlling TMC or Pangea shall include consent with respect to any resulting indirect Transfer of TMC's JV Rights.

3.2 Transfer Restrictions. Notwithstanding anything to the contrary in Section 3.1(a), solely during the Initial Restricted Period and any Subsequent Restricted Period, but not during any other period:

(a) WD's separate prior written consent shall be required for each of the following unless and until there is a closing of a WD Competitor CoC:

(i) any issuance or granting by TMC, Pangea or an Investment Vehicle of Equity Interests in, or the power to direct the voting or Control of, TMC, Pangea or any of their respective Subsidiaries, in either case to a Competitor, other than (A) an issuance of passive Equity Interests (including limited partnership economic rights) in an Investment Vehicle, or Equity Interests in TMC or Pangea to **** with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC (following a bona fide good faith determination by the board of directors of Pangea that such issuance helps to satisfy TMC's liquidity needs and is otherwise in the best interests of TMC as compared to other sources of financing reasonably available to TMC or Pangea); provided, that, after giving effect to any such issuance, **** does not (y) hold or own, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC or Pangea in excess of an

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amount equal to **** of, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (z) hold or own, directly or indirectly, or have the right to acquire, any voting or Control rights in, TMC, Pangea or any of their respective Subsidiaries in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis, (B) an issuance of Equity Interests in TMC, Pangea or any Investment Vehicle or any of their respective Subsidiaries to TSB or any of its wholly-owned Subsidiaries, in each case, acting solely for its own account and not on behalf of, or for the account of, any other Competitor, with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC; provided that none of TSB nor its Affiliates has any agreement providing any Competitor with the right to vote or acquire such Equity Interests; provided, further that, after giving effect to any such issuance, TSB and its Affiliates collectively do not hold or own, or have the right to acquire, Equity Interests or voting rights in TMC or Pangea in an amount that would constitute, or result in, a Change of Control of TMC, Pangea or any of their respective Subsidiaries or (C) following the third (3rd) anniversary of the closing of the TMC Sale (in the case of the Initial Restricted Period) or a Subsequent Bain Transaction (in the case of a Subsequent Restricted Period), an issuance of Equity Interests in TMC or Pangea, to **** or any of its Affiliates in amount up to ****, in the aggregate, of the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis solely in connection and simultaneous with a bona fide primary sale of Equity Interests in TMC or Pangea to multiple purchasers in addition to **** or its Affiliates, with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC (following a bona fide good faith determination by the board of directors of Pangea that such issuance helps to satisfy TMC's liquidity needs and is otherwise in the best interests of TMC as compared to other sources of financing reasonably available to TMC or Pangea);

(ii) any repurchase of direct or indirect Equity Interests by TMC or Pangea, or any recapitalization or similar transaction involving a member of the TMC Group, to the extent that any such repurchase, recapitalization or similar transaction, together with all previous repurchases, recapitalizations, or similar transactions, would result in **** (y) holding or owning, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC, Pangea or any of their respective Subsidiaries, other than Equity Interests in TMC or Pangea not in excess of an amount equal to **** of, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (z) holding or owning, directly or indirectly, or having the right to acquire, any voting rights in TMC or any of its Subsidiaries, other than voting rights in TMC or Pangea not in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis, in each case, unless **** holds or owns, directly or indirectly, or has the right to acquire, voting rights or Equity Interests in TMC or Pangea in an amount in excess of such threshold at the time of the repurchase, recapitalization or similar transaction, in which case such transaction shall not be permitted unless it does not result in any increase in the percentage of voting rights or Equity Interests of **** and its Affiliates collectively in TMC or Pangea, as applicable; or

(iii) any Transfer by TSB, Bain Capital or any of their respective Affiliates, or any consent by TSB, Bain Capital or any of their respective Affiliates, to the Transfer (whether by amendment, waiver, consent, modification or other action, with respect to or under the Pangea

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Shareholders Agreement (or any shareholder agreement in respect of a Subsequent Bain Transaction), the governance documents of any Bain Capital entity, or otherwise), by any other Person of, any Equity Interests or voting rights in TMC, Pangea or any of their respective Subsidiaries to a Competitor, other than (A) a Transfer by Bain Capital of Equity Interests or voting rights in Pangea or TMC to **** only to the extent such Transfer is made simultaneously with (1) a bona fide primary sale of securities by TMC or Pangea to **** permitted under Section 3.2(a)(i), as determined by the board of directors of Pangea in good faith, or (2) the initial public offering of TMC, Pangea or any entity Controlling TMC or Pangea; provided that (y) in no event may Bain Capital Transfer to **** pursuant to this Section 3.2(a)(iii) Equity Interests or voting rights that exceed **** of the Equity Interests or voting rights in TMC or Pangea, as applicable, in the aggregate (taken together with all Transfers by Bain Capital to ****); and (z) after giving effect to any such primary sale and Transfer, **** does not (1) hold or own, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC or Pangea in excess of an amount equal to **** (in the case of a Transfer to **** pursuant to Section 3.2(a)(iii)(A)(1)) of, and **** (in the case of a Transfer to **** pursuant to Section 3.2(a)(iii)(A)(2)) of, in either case, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (2) hold or own, directly or indirectly, or have the right to acquire, any voting or Control rights in TMC or any of its Subsidiaries in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis; and (B) following the third (3rd) anniversary of the closing of the TMC Sale (in the case of the Initial Restricted Period) or a Subsequent Bain Transaction (in the case of the Subsequent Restricted Period), a Transfer of Equity Interests or voting rights in Pangea, TMC, or any entity Controlling TMC or Pangea by Bain Capital to **** or any of its Affiliates in an amount up to the ****, in the aggregate, of the total Equity Interests in TMC or Pangea on a fully diluted and as converted basis; or

(iv) a transaction constituting a Change of Control of TMC, Pangea or any of their respective Subsidiaries that results in Control of TMC, Pangea or any of their Subsidiaries by a Competitor.

(b) (i) Notwithstanding anything herein to the contrary, in no event shall the Parties permit (A) any of ****, **** or **** to own or hold, or have the right to acquire, any Equity Interests or voting rights in TMC if any of ****, **** or **** own or hold, or have the right to acquire, any Equity Interests or voting rights in Pangea and (B) any of ****, **** or **** be permitted to own or hold, or have the right to acquire, any Equity Interests or voting rights in Pangea if any of ****, **** or **** own or hold, or have the right to acquire, any Equity Interests or voting rights in TMC.

(ii) As a condition to any Transfer or issuance of Equity Interests or voting rights in TMC, Pangea or an Investment Vehicle, the transferor (or issuer) shall, and TMC shall cause any Subsidiary that is a transferor or issuer to, cause any Transferee to enter into an agreement with TMC or Pangea, as applicable, that requires such Transferee, subject to the other provisions of Section 3.1, to comply with the restrictions on Transfer set forth herein, and other provisions provided in Sections 3.2(a) and 3.2(b) (the "Transfer Restrictions"), which agreement shall provide that WD and SanDisk are intended third-party beneficiaries of the Transferee's obligation to abide by the Transfer Restrictions with direct rights of enforcement against such Transferee, provided that after the Transferee enters into an agreement with TMC to accede to the Transfer Restrictions, the transferring shareholder will not have any

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obligation or liability relating to, arising out of, or in connection with a Transferee's failure to comply with the Transfer Restrictions and TMC or Pangea, as applicable, shall provide WD a copy of such agreement upon execution thereof.

(c) For purposes of Section 3.2, any reference to a "Subsidiary" shall only include a Subsidiary that, directly or indirectly, holds, owns or Controls JV Rights.

(d) Upon the consummation of an initial public offering of TMC or Pangea or any entity Controlling TMC or Pangea or, if required by the applicable Qualified Exchange, not more than thirty (30) days prior to the anticipated consummation of such initial public offering on a Qualified Exchange, the Parties agree that the terms of this Section 3.2 will be deemed amended to the limited extent necessary for the issuer to comply with the listing requirements imposed by such Qualified Exchange on such issuer and in a manner that preserves the Transfer Restrictions hereunder to the maximum extent permissible; provided, that if an initial public offering is not consummated within forty five (45) days following the date on which the Transfer Restrictions were deemed modified, the Transfer Restrictions shall be deemed reinstated retroactively to the date of such deemed modification.

(e) Notwithstanding anything to the contrary set forth in this Agreement, the restrictions set forth in this Section 3.2 shall have no force or effect following the termination of the SPA; provided, however, that if a Subsequent Bain Transaction is consummated, the restrictions set forth in this Section 3.2 shall apply during the Subsequent Restricted Period applicable to such Subsequent Bain Transaction.

3.3 TSB and TMC Consents. TSB and TMC each hereby irrevocably consents to, and shall cause its Subsidiaries to irrevocably consent to:

(a) the granting of any first priority Lien to a third party senior lender to secure indebtedness covering or securing (i) any assets of WD (other than the JV Shares), (ii) any Equity Interests in or any assets of any of its Subsidiaries (other than the JV Shares), regardless of whether WD or such Subsidiaries owns any JV Shares or is a party to any Existing Agreement and (iii) solely in connection with a pledge of a material portion of those assets of WD and its Subsidiaries that are not Collaboration Assets, if any, the JV Shares; provided, that no such lender may enforce any Lien securing such indebtedness that would result in a direct or indirect Transfer of JV Shares unless, after giving effect to such enforcement action, a single Person, together with such Person's Subsidiaries, holds or owns all Collaboration Assets held or owned by WD and its Subsidiaries, as of immediately prior to such enforcement; provided further, that no such Lien may be granted on or with respect to JV Rights (other than the JV Shares (pursuant to this Section 3.3(a)) held by WD or its Subsidiaries) or the assets, property or rights of the JVs; and

(b) for the avoidance of doubt and without imposing or implying any additional obligations under any Existing Agreement or any Transaction Document, any issuance of Equity Interests in WD or an entity Controlling WD and any primary or secondary offering or trading of such Equity Interests.

3.4 Immediate Effectiveness. Concurrent with the execution of this Agreement, the applicable Parties will execute or cause to be executed the Y6 Facility Agreement in the form of Exhibit G (the "Y6 Facility Agreement"), the FAL Commitment and Extension Agreement in the form of Exhibit H (the "FAL

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Extension”), the FFL Commitment and Extension Agreement in the form of Exhibit I (the “FFL Extension”), the Amendment to FPL Commitment and Extension Agreement in the form of Exhibit J (the “FPL Extension Amendment”), the Parent Guarantee and Undertaking as to Collaboration in the form of Exhibit K (the “Undertaking”), the Termination Agreement in the form of Exhibit L (the “Termination Agreement”), the Patent Cross License Agreement between WD and TMC in the form of Exhibit M (“*****”), the Patent Cross License Agreement between WD and TSB in the form of Exhibit N (“*****”), the Amended and Restated Joint Memory Development Yokkaichi Agreement in the form of Exhibit O (the “Amended JMDY Agreement”) and the Y6 Mutual Contribution and Environmental Indemnification Agreement in the form of Exhibit P (the “Y6 MCEIA”, and together with the Y6 Facility Agreement, the FAL Extension, the FFL Extension, the FPL Extension Amendment, the Undertaking, the Termination Agreement, ***** and the Amended JMDY Agreement, the “Transaction Documents”), and the Transaction Documents shall each become effective immediately upon such execution.

3.5 Termination of FFL Transition Agreement. The Transition Agreement, by and among TMC, on one side, and SanDisk Flash and SanDisk LLC, on the other side, dated as of July 13, 2010, is hereby terminated in its entirety without any liability, obligation, cost or expense owing to either party and shall be of no further force or effect.

3.6 Effect of Transfer. Except as otherwise set forth in this Agreement, the conditions for Transfer, admission and/or withdrawal, to the extent applicable, set out in any Existing Agreement, including for the avoidance of doubt, Article 9 and Section 4.1(a)(ix) of the applicable JV’s Operating Agreement and Section 5.1(b) of the applicable JV’s Master Agreement, shall continue to apply.

3.7 Change of Control.

(a) The Parties acknowledge and agree, that notwithstanding anything to the contrary in this Agreement or the Existing Agreements, from and after the date hereof, for purposes of Sections 4.1(a)(ix) and 9.1(a) of each Operating Agreement and Section 5.1(b) of each Master Agreement, a “Change of Control” for which consent is not required shall be deemed to refer only to a Change of Control of any Memory Business Owner.

(b) WD and each of its Subsidiaries may Transfer without consent any Collaboration Assets or Collaboration Liabilities of WD or any of its Subsidiaries (other than ***** and the Undertaking) to WD or one or more of WD’s wholly-owned Subsidiaries; provided, that WD shall provide TMC with reasonable prior notice of any such Transfer by WD or any such Subsidiaries.

(c) TMC and each of their respective Subsidiaries may Transfer without consent any Collaboration Assets or Collaboration Liabilities of TMC or any of its Subsidiaries (other than *****) to TMC or one or more of TMC’s wholly-owned Subsidiaries; provided, that TMC shall provide WD with reasonable prior notice of any such Transfer by TMC or any such Subsidiaries.

(d) A Memory Business Owner and each of its Subsidiaries may Transfer without consent any Collaboration Assets or Collaboration Liabilities of such Memory Business Owner or any of its Subsidiaries (other than *****) to such Memory Business Owner or one or more of such Memory Business Owner’s wholly-owned Subsidiaries; provided, that such Memory Business Owner shall provide the other

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Memory Business Owner with reasonable prior notice of any such Transfer by such Memory Business Owner or any such Subsidiaries.

(e) Subject to Sections 3.1 and 3.3, notwithstanding anything in this Agreement or any Collaboration Agreement to the contrary:

(i) no Collaboration Assets of any Person or its Affiliates may be sold, disposed of or otherwise transferred, by any means, to any unaffiliated third party, unless all Collaboration Assets (which need not include **** and the Undertaking, but subject to Section 3.7(f) with respect to ****) of such Person and its Affiliates are sold, disposed of or otherwise transferred to a Person pursuant to a Change of Control permitted by Section 3.7(a); provided, that the foregoing shall not limit any Person's right to sell, dispose of or otherwise transfer any assets (other than its JV Rights and Collaboration Agreements), in the ordinary course of business consistent with past practice, so long as such Person and its Affiliates remain able to satisfy and discharge such Person's and its Affiliates' Collaboration Liabilities;

(ii) a Person that acquires Control of a Memory Business Owner (a "Memory Business Acquiror") shall not itself have any rights or obligations under any Collaboration Agreement to which such Memory Business Owner or any of its Subsidiaries is a party unless (A) such Memory Business Owner is a wholly-owned Subsidiary of such Memory Business Acquiror, (B) such Memory Business Acquiror has agreed in writing to be bound to the terms of *both* (1) this Section 3.7 for the benefit of all counterparties to such Collaboration Agreements and (2) Sections 2.2 and 3.6 of the Undertaking for the benefit of all counterparties to the Undertaking (notwithstanding any termination of the Undertaking due to such acquisition of Control, for the period during which such Sections shall remain in effect in accordance with the term thereof, notwithstanding such termination), *and* (C) either (1) such Collaboration Agreement is assigned to and assumed by such Memory Business Acquiror in accordance with such Collaboration Agreement's terms or as otherwise agreed by the counterparty(ies) to such Collaboration Agreement or (2) such Memory Business Acquiror has agreed with the counterparty(ies) to such Collaboration Agreement to an undertaking or other arrangement governing such Memory Business Acquiror's participation in such Collaboration Agreement; and

(iii) no Person shall be required to give notice hereunder in connection with the transfer or termination of any employee of such Person.

(f) **** shall be assigned to a Memory Business Owner upon and effective as of the closing of a Change of Control of such Memory Business Owner in accordance with Section 3.7(a).

(g) From and after the Effective Date, TSB will not Transfer any of its Collaboration Assets except: (i) for the actions described in Section 4.1, (ii) for direct Transfers of its Collaboration Assets as permitted by Sections 3.1(a)(i), 3.1(a)(vii), or 3.1(a)(viii), (iii) for indirect Transfers of its Collaboration Assets as permitted by Sections 3.1(a)(ii), 3.1(a)(iii), 3.1(a)(iv), or 3.1(a)(v) (to the extent TMC is a Memory Business Owner in the case of Section 3.1(a)(v)), (iv) for the granting of any Lien by TSB as permitted by Sections 3.1(a)(ix) or 3.1(a)(x), (v) as permitted by Section 3.7, and (vi) for any Transfer of assets (other than JV Rights and Collaboration Agreements) made in the ordinary course of business, consistent with past practice.

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(h) TMC represents and warrants to WD that, as of the completion of the actions described in Section 4.1 hereof, and as of immediately following the closing of the TMC Sale, TMC, or a wholly-owned Subsidiary of TMC, will (i) hold or own all Collaboration Assets that, prior to the completion of such actions, or, immediately prior to the closing of the TMC Sale, were held or owned by TSB and its Affiliates and (ii) be a Memory Business Owner.

(i) The Parties agree that, other than as expressly set forth in subsections (b), (c) and (d) of this Section 3.7, nothing in subsections (b), (c) and (d) of this Section 3.7 shall eliminate, alter or limit in any way (i) the Transfer Restrictions or (ii) any of the obligations under the Existing Agreements or Transaction Documents to obtain consent prior to making any Transfers.

(j) For purposes of clarity and the avoidance of doubt, and without limiting any portion of the other subsections of this Section 3.7, the Parties hereby agree (i) that each party to the Master Agreement of a JV, the Operating Agreement of a JV, the New Y2 Facility Agreement and the Y6 Facility Agreement, must at all times be an Affiliate of a party or parties that owns Equity Interests of each JV; and (ii) no JV Shares of a JV may be owned by any party that is not a party to the Operating Agreement and Master Agreement pertaining to such JV; provided, that (x) each party to any Operating Agreement may assign such Operating Agreement to a wholly-owned Subsidiary of a Memory Business Owner that Controls such party so long as such party also assigns all its JV Shares in the applicable JV to such wholly-owned Subsidiary and (y) in connection with the actions permitted by this Section 3.7, upon the request of any party to any Master Agreement, the other party(ies) to such Master Agreement shall consent to the joinder as a party to such Master Agreement (with all the same rights and obligations of the requesting party) of a wholly-owned Subsidiary of such requesting party to which such requesting party assigns its JV Shares in the JV to which such Master Agreement pertains; and provided, further, that giving effect to the foregoing assignments and joinders, neither Memory Business Owner shall have more than two parties to any given Master Agreement (whether as a party itself or through its Subsidiary).

4. Further Assurances.

4.1 JV Share Transfers.

(a) TSB and TMC covenant to WD and SanDisk that, within thirty (30) days after the Effective Date, TSB will have completed the (i) transfer to TMC of all of TSB's right, title and interest in, to and under the JV Shares and (ii) assignment of all of TSB's right, title and interest in, to and under the Existing Agreements to TMC and the assumption by TMC of all of TSB's obligations and liabilities under the Existing Agreements.

(b) Each of TSB, TMC, WD and SanDisk shall, and shall cause its Subsidiaries and the JVs to, cooperate with each Party (and its Subsidiaries and the JVs), take such further actions, execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and obtain such further approvals and grant or obtain such further consents, as may be reasonably required or requested by any Party, whether pursuant to the Existing Agreements, the JV Articles of Incorporation, or applicable Law, to effectuate any matter within the scope and to the extent of the consents set forth in Section 3, including the transfer of TSB's JV Rights to TMC.

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4.2 Acknowledgement. Notwithstanding anything to the contrary in any Collaboration Agreement (including Section 9.1(a) of each Operating Agreement), except to the extent such Collaboration Agreement by express reference to this Section 4.2 expressly provides otherwise, but subject to the terms of the Undertaking, the Parties acknowledge and agree that:

(a) once TMC is no longer a Subsidiary of TSB, TSB and its Subsidiaries (other than TMC and its Subsidiaries) shall no longer be responsible for any obligations under any Collaboration Agreement to which TMC (or a directly or indirectly wholly owned Subsidiary of TMC) is a party; provided, however: (i) the foregoing shall not relieve TSB and its Subsidiaries from any liability for any breach of any agreement prior to the time at which TMC ceases to be a Subsidiary of TSB and (ii) TSB and its Subsidiaries shall remain bound by any obligations of TMC or any of its Subsidiaries under the Collaboration Agreements to protect and maintain the confidentiality of confidential information;

(b) once a WD Memory Business Owner is no longer a Subsidiary of WD as a result of a Change of Control permitted under Section 3.7(a), WD and its Subsidiaries (other than such WD Memory Business Owner and its Subsidiaries) shall no longer be responsible for any obligations under any Collaboration Agreement which such WD Memory Business Owner (or a directly or indirectly wholly owned Subsidiary of such WD Memory Business Owner) is a party; provided, however: (i) the foregoing shall not relieve WD and its Subsidiaries from any liability for any breach of any agreement prior to such Change of Control and (ii) WD and its Subsidiaries shall remain bound by any obligations of such WD Memory Business Owner or any of its Subsidiaries under the Collaboration Agreements to protect and maintain the confidentiality of confidential information;

(c) once a TMC Memory Business Owner is no longer a Subsidiary of TMC as a result of a Change of Control permitted under Section 3.7(a), TMC and its Subsidiaries (other than such Memory Business Owner and its Subsidiaries) shall no longer be responsible for any obligations under any Collaboration Agreement to which such TMC Memory Business Owner (or a directly or indirectly wholly owned Subsidiary of such TMC Memory Business Owner) is a party; provided, however: (i) the foregoing shall not relieve TMC and its Subsidiaries from any liability for any breach of any agreement prior to such Change of Control and (ii) TMC and its Subsidiaries shall remain bound by any obligations of such TMC Memory Business Owner or any of its Subsidiaries under the Collaboration Agreements to protect and maintain the confidentiality of confidential information; and

(d) once a Memory Business Owner is no longer a Subsidiary of a Person that, immediately prior to a Change of Control permitted under Section 3.7(a), Controlled such Memory Business Owner, such previously Controlling Person and its Subsidiaries (other than such Memory Business Owner and its Subsidiaries) shall no longer be responsible for any obligations under any Collaboration Agreement to which such Memory Business Owner (or a directly or indirectly wholly-owned Subsidiary of such Memory Business Owner) is a party; provided, however: (i) the foregoing shall not relieve any such previously Controlling Person and its Subsidiaries from any liability for any breach of any agreement occurring prior to such Change of Control and (ii) such previously Controlling Person and its Subsidiaries will remain bound by any obligations of such Memory Business Owner or any of its Subsidiaries under the Collaboration Agreements to protect and maintain the confidentiality of confidential information.

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5. **End of Access Restrictions.** Commencing on the execution of the Undertaking, TSB and TMC shall cease the Access Restrictions. TSB and TMC each hereby acknowledges that upon the execution of the Undertaking, Section 1.8 of the Undertaking shall apply with respect to access by WD and its Subsidiaries (and its and their employees) to certain facilities, databases and information to which TMC restricted access by implementing the Access Restrictions. TSB and TMC each agrees to abide by Section 1.8 of the Undertaking from the execution of the Undertaking.

6. **Representations and Warranties.** Each Party represents and warrants to the other Parties that, as of the Effective Date:

6.1 **Organization and Standing.** It is duly organized and validly existing and in good standing under the Laws of the jurisdiction in which it is organized.

6.2 **Authority; Enforceability.** It has the requisite power and authority to enter into this Agreement and to perform its obligations hereunder. All proceedings required to be taken by it to authorize the execution, delivery and performance of this Agreement have been properly taken. This Agreement has been duly and validly executed and delivered by it and constitutes a valid and binding obligation of it, enforceable against it in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights generally or the availability of equitable remedies (regardless of whether enforceability is considered in a proceeding at law or in equity).

6.3 **No Conflict.** The execution, delivery and performance of this Agreement by it do not and will not (a) breach, violate or conflict with any provision of its charter documents as amended to date or (b) conflict with or violate any Law applicable to it.

6.4 **No Assigned Claims.** It has not assigned to any third party any Claim that is otherwise within the scope of the release it is giving under this Agreement.

7. **Confidentiality.**

7.1 **Confidentiality of Agreement.** No Party shall, or shall permit any of its Affiliates to, without the prior written consent of the other Parties, issue any public statement, release, announcement or other document, or otherwise publicly disclose or file, all or any part of this Agreement or any description or terms or conditions hereof, except as may be required by applicable Law, including as required to be disclosed by applicable securities or other Laws, provided, that notwithstanding anything herein to the contrary, the Party required to make a disclosure shall, prior to any such disclosure required by the U.S. Securities and Exchange Commission or the Financial Services Authority of Japan, provide the other Parties with notice which includes a copy of the proposed disclosure and consider in good faith such other Parties' timely input with respect to such disclosure, and, in the case of disclosures or filings required pursuant to Laws other than the Laws and regulations of the U.S. Securities and Exchange Commission or Financial Services Authority of Japan, the Party required to make the applicable disclosure or filing shall cooperate with the other Parties, to the fullest extent practicable under applicable Law, in obtaining any confidential treatment for such disclosure or filing requested by the other Parties prior to making such disclosure or filing, to the extent practicable. Each Party shall use its commercially reasonable efforts to

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grant or deny any consent required under this Section 7 with respect to the Laws, other than the Laws and regulations of the U.S. Securities and Exchange Commission and the Financial Services Authority of Japan, within five (5) Business Days of receipt of written request by any other Party; provided, however, that a Party's failure to respond within said time period shall not be deemed to constitute such Party's consent.

7.2 Public Announcements. Subject to Section 7.1, the contents and timing of the initial public announcement regarding this Agreement and/or the subject matter hereof shall be mutually agreed between the Parties prior to the public release of such announcement, and any further public announcements, by or on behalf of a Party shall not be inconsistent with public announcements previously agreed upon by the Parties; provided, however, notwithstanding the foregoing, each Party will be allowed to respond publicly to third party inquiries regarding this Agreement and the subject matter hereof in a manner consistent with any public filings pursuant to Section 7.1 made by such Party. Nothing in this Section 7.2 shall be construed as restricting any Party's confidential communications with third parties (including Governmental Authorities or regulators), and in no event shall any Party have any liability or obligation to any other Party with respect thereto.

8. Additional Commitments and Representations.

8.1 Disclosure of **** and **** Arrangements. Except for true, correct and complete copies of contracts disclosed to WD prior to the date hereof, there are no other contracts, whether written or oral, in effect or contemplated, as of the date hereof, to be in effect between TSB, TMC, or any of their Affiliates as of the date hereof, on the one hand and **** or **** on the other hand, relating to the ownership, voting, Transfer or Control of Equity Interests in any member of the TMC Group.

8.2 Pangea Shareholders Agreement. TSB has disclosed to WD a true, correct and complete copy of the term sheet for the Pangea Shareholders Agreement. From the closing of the TMC Sale or Subsequent Bain Transaction until the earlier of (a) **** following the closing of the TMC Sale or Subsequent Bain Transaction and (b) an initial public offering of TMC or Pangea or any entity Controlling TMC or Pangea, TSB shall cause a shareholders' agreement to be executed by all holders of Equity Interests in TMC or a Person of whom TMC is a wholly-owned Subsidiary which shall be effective as of the closing of the TMC Sale or a Subsequent Bain Transaction, and which shall contain a prohibition on Transfer of Equity Interests in TMC or a Person of whom TMC is a wholly-owned Subsidiary by any holder thereof, which prohibition shall require the approval of both of TSB (for so long as TSB holds at least **** of the Equity Interests or voting rights in Pangea) and Bain Capital to amend, waive, modify, or grant any consent with respect thereto.

8.3 ****

9. Term and Termination.

9.1 Term. This Agreement shall be effective as of the Effective Date and shall remain in full force and effect until terminated by written agreement of all of the Parties.

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9.2 Survival. Sections 1, 2, 3, 4, 7, 9.2, 10 shall survive any expiration or termination of this Agreement.

10. Miscellaneous.

10.1 Entire Agreement. This Agreement, together with the exhibit(s) and schedules hereto, constitute the entire agreement of the Parties to this Agreement with respect to the subject matter hereof and supersedes all prior written and oral agreements and understandings with respect to such subject matter.

10.2 Undertaking as to Affiliate Obligations. Each Party shall cause all covenants, conditions and agreements that are required to be performed, observed or satisfied by any of its Affiliates under this Agreement to be fully and faithfully observed, performed and satisfied by such Affiliate, and shall not cause or permit to exist any breach or default of such covenants, conditions or agreements arising from such Affiliate's action or inaction. Nothing expressed or implied in this Agreement shall be construed to create any right in any Person other than the Parties; provided, that (a) Bain Capital shall be a third party beneficiary under Sections 2.4 and 3.1(a)(x) and shall be entitled to rely upon and enforce such sections of this Agreement, but no other sections of this Agreement and (b) any Bain Consortium Member, Auction Participant or bank or other financial institution referenced in Section 2.2 shall be a third party beneficiary under Section 2.2 and shall be entitled to rely upon and enforce such section of this Agreement, but no other sections of this Agreement.

10.3 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such state without regard to the conflict of laws principles of such state, except where the application of Japanese law is mandatory.

10.4 Dispute Resolution; Arbitration. Any dispute concerning this Agreement shall be settled by confidential, binding arbitration in San Francisco, California. The dispute shall be heard by a panel of three arbitrators pursuant to the rules of the International Chamber of Commerce. Such arbitration shall be conducted in English. The awards of such arbitration shall be final and binding upon the parties thereto. Each Party will bear its own fees and expenses associated with the arbitration. Filing fees and arbitrator fees charged by the International Chamber of Commerce shall be borne equally by the claimant(s), on one hand, and the respondent(s), on the other hand, to such arbitration.

10.5 Equitable Relief. Equitable relief, including the remedies of specific performance and injunction, shall be available with respect to any actual or attempted breach or violation of, or failure to obtain consent when required under, this Agreement; provided, however, in the absence of exigent circumstances, the Parties shall refrain from commencing any lawsuit or seeking judicial relief in connection with such actual or attempted breach and resolve the subject dispute in accordance with the procedures set forth in Section 10.4.

10.6 Special Damages. IN THE ABSENCE OF ACTUAL FRAUD, IN NO EVENT SHALL ANY PARTY BE LIABLE TO OR BE REQUIRED TO INDEMNIFY ANY OTHER PARTY OR ANY OF THEIR RESPECTIVE AFFILIATES UNDER THIS AGREEMENT (OR ANY AGREEMENT INTO WHICH THIS PROVISION IS INCORPORATED) FOR ANY SPECIAL, CONSEQUENTIAL,

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INCIDENTAL OR INDIRECT DAMAGE OF ANY KIND, (INCLUDING WITHOUT LIMITATION LOSS OF PROFIT OR DATA), WHETHER OR NOT ADVISED OF THE POSSIBILITY OF SUCH LOSS.

10.7 Relationship of the Parties. The Parties are independent contractors and no provision of or action pursuant to this Agreement shall constitute any Party acting as the direct or indirect agent or partner of any other Party for any purpose or in any sense whatsoever. Nothing contained in this Agreement is intended to, or shall be deemed to, create a partnership or fiduciary relationship between or among the Parties. No Party shall take a position contrary to this Section 10.7.

10.8 Official Language. The official language of this Agreement is the English language only, which language shall be controlling in all respects, and all versions of this Agreement in any other language shall not be binding on the Parties nor shall such other versions be admissible in any legal proceeding, including arbitration, brought under this Agreement. All communications and notices to be made or given pursuant to this Agreement shall be in the English language.

10.9 Interpretation.

(a) Treatment of Ambiguities. The Parties acknowledge that each Party has participated in the drafting of this Agreement, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(b) References; Construction. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a section of, or an exhibit or a schedule to, this Agreement. The section headings contained in this Agreement and the recitals at the beginning of this Agreement are for reference purposes only and shall not, other than to define the capitalized terms defined therein, affect in any way the meaning or interpretation of this Agreement or any other agreement. The words “include,” “includes” and “including,” when used in this Agreement, shall be deemed to be followed by the phrase “without limitation.” The words “herein,” “hereof,” “hereunder” and words of like import shall refer to this Agreement as a whole (including its exhibits and schedules), unless the context clearly indicates to the contrary. Any reference made in this Agreement to any Existing Agreement shall be deemed, unless the context clearly indicates to the contrary, to refer to such Existing Agreement as such Existing Agreement may be amended or supplemented from time to time. As referred to herein, all references to “Pangea” or “TMC” shall be deemed to include the surviving entity in the TMC Merger.

(c) Order of Precedence. To the extent that a provision in this Agreement expressly conflicts with an Existing Agreement, then the provisions of this Agreement will control as to such conflict; provided, however, that unless otherwise provided herein, the provisions of the Existing Agreement remain in effect.

10.10 Notices and Contact Information. All notices and other communications to be given or made under this Agreement shall be in writing and shall be deemed received (a) if delivered by hand, courier or overnight delivery service, when delivered, (b) if delivered by email, the earlier of (i) when the recipient,

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by an email sent to the email address for the sending party stated in this Section 10.10 or by a notice delivered by another method in accordance with this Section 10.10, acknowledges having received that email (provided, however, than an automatic “read receipt” will not constitute acknowledgement of an email for purposes of this Section 10.10(b)(i)) or (ii) when the email is delivered, if followed within two Business Days by delivery of a copy by hand, courier or overnight delivery service, or (c) five days after being mailed by certified or registered mail, return receipt requested, with appropriate postage prepaid and shall be directed to the address of such Party specified below (or at such other address as such Party shall designate by like notice):

(a) If to TSB:

Toshiba Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-8001
Telephone: ****
Email: ****
Attention: General Manager, Strategic Planning Div.

With a copy to:

Toshiba Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-8001 Japan
Telephone: ****
Email: ****
Attention: Group Manager, Group Relations Group
Group Manager, Corporate Development Group
General Manager, Legal Affairs Division

(b) If to TMC:

Toshiba Memory Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-0023 Japan
Telephone: ****
Email: ****
Attention: Executive Vice President, Chief Operating Officer

With a copy to:

Toshiba Memory Corporation
1-1 Shibaura 1-chome
Minato-ku, Tokyo 105-0023 Japan
Telephone: ****
Email: ****
Attention: General Manager, Legal Affairs Division

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(c) If to WD:

Western Digital Corporation
5601 Great Oaks Parkway
San Jose, CA 95119
Telephone: (408) 717-6000
E-mail: ****
Attention: Chief Legal Officer

(d) If to SanDisk:

SanDisk LLC
c/o Western Digital Corporation
5601 Great Oaks Parkway
San Jose, CA 95119
Telephone: (408) 717-6000
E-mail: ****
Attention: Chief Legal Officer

10.11 Assignment. Except as expressly provided herein, no Party may Transfer this Agreement or any of its rights or obligations hereunder without the prior written consent of each of TSB, TMC, WD, and each of their respective successors (which consent may be withheld by such Party in such Party's sole discretion), and any such purported transfer without such consent will be void.

10.12 Amendment and Waiver. This Agreement may not be amended, modified or supplemented except by a written instrument executed by each Party. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

10.13 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assignees.

10.14 Severability. If a provision of this Agreement or the application of any such provision is or becomes illegal, invalid or unenforceable in any respect under any jurisdiction, that will not affect (a) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement or (b) the legality, validity or enforceability in any other jurisdictions of that or any other provision of this Agreement. To the extent permitted by applicable Law, the Parties waive any provision of Law that renders any provision of this Agreement invalid, illegal or unenforceable in any respect. Such provision shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable comes closest to the intention of the Parties underlying such illegal, invalid or unenforceable provision.

10.15 Counterparts; Effectiveness. This Agreement may be executed in counterparts, each of which shall be binding as of the date first written above, and all of which shall constitute one and the same

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instrument. Each such counterpart shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one of each such counterpart. The exchange of copies of this Agreement and of signature pages by portable document format (.pdf) or other electronic format shall be deemed to be their original signatures for all purposes. This Agreement shall not become effective until one or more counterparts have been executed by each Party and delivered to the other Party.

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

TOSHIBA CORPORATION

By: /s/ Satoshi Tsunakawa

Name: Satoshi Tsunakawa
Title: Representative Executive Officer
President and Chief Executive Officer

TOSHIBA MEMORY CORPORATION

By: /s/ Yasuo Naruke

Name: Yasuo Naruke
Title: President and Chief Executive Officer

WESTERN DIGITAL CORPORATION

By: /s/ Michael C. Ray

Name: Michael C. Ray
Title: Executive Vice President, Chief Legal
Officer and Secretary

SANDISK LLC

By: /s/ Michael C. Ray

Name: Michael C. Ray
Title: Sole Manager

SANDISK (CAYMAN) LIMITED

By: /s/ Michael C. Ray

Name: Michael C. Ray
Title: Director

SANDISK (IRELAND) LIMITED

By: /s/ Michael C. Ray

Name: Michael C. Ray
Title: Director

SANDISK FLASH B.V.

By: /s/ Michael C. Ray

Name: Michael C. Ray
Title: Director

[Signature Page to Confidential Settlement and Mutual Release Agreement]

Exhibit A

Certain Definitions

Any capitalized term used, but not defined, in this Agreement shall have the meaning ascribed to such term in the New Y2 Facility Agreement (as defined below). As used in this Agreement:

“Affiliates” means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by or is under common Control with, the Person specified, and “Control”, when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or otherwise, and the terms “Controlling” and “Controlled” have meanings correlative to the foregoing; provided, however, that the term Affiliate (a) when used in relation to any JV or Subsidiary thereof, shall not include any Party or its Affiliates, and (b) when used in relation to a Party or its Affiliates, shall not include any JV or Subsidiary thereof.

“Auction Participants” means all bidders in the Auction and their attorneys and consortium partners, excluding Bain Capital and any Bain Consortium Member.

“Bain Consortium” means the consortium formed in connection with the TMC Sale, consisting of Bain Capital; Hoya Corporation; Apple, Inc.; Kingston Technology Company, Inc.; Seagate; Dell Technology Inc.; and SK.

“Bain Consortium Member” means any person or entity comprising part of the Bain Consortium, including each person’s or entity’s respective Affiliates, and its and their respective successors, assignees, predecessors, funds, officers, directors, managers, partners, shareholders, employees, representatives, attorneys, advisors and agents, except Bain Capital.

“Business Day” means any day (other than a day which is a Saturday, Sunday or legal holiday in the State of California or Japan) on which commercial banks are open for business in the State of California or Tokyo, Japan.

“Change of Control” with respect to a Person means (i) a transaction or series of related transactions as a result of which more than 50% of the beneficial ownership of the outstanding common stock or other ownership interests of such Person (representing the right to vote for the board of directors or similar organization of such Person) is acquired by another Person or affiliated group of Persons, whether by reason of stock acquisition, merger, consolidation, reorganization or otherwise or (ii) the sale or disposition of all or substantially all of a Person’s assets to another Person or affiliated group of Persons.

“Claims” means any and all claims, counterclaims, demands, losses, payments, Liens, expenses (including attorneys’ fees), damages, liabilities, financial obligations, indemnification obligation, actions, causes of action, disputes, debts or obligations of every kind and nature, whether contractual, in law or in equity (including, without limitation, under the Japanese Civil Code, the laws of the State of California, the Uniform Commercial Code (as codified by each state of the United States of America), and/or the United Nations Convention on Contracts for the International Sale of Goods) past or present, direct or indirect, known or unknown, suspected or unsuspected, fixed or contingent, and whether several or otherwise.

“Collaboration” has the meaning set forth in the Undertaking.

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“Collaboration Agreements” means the Existing Agreements, the Transaction Documents, and any other agreements entered into in connection with the Collaboration, including parent/JV loan agreements, in each case, other than ****.

“Collaboration Assets” means, ****.

“Competitor” means ****.

“Equity Interests” means, with respect to a Person, any common equity or common equity-equivalent interests or securities of such Person, including, any participating preferred securities, warrants, options or other rights to acquire any of the foregoing and debt securities that are or convertible into or exchangeable or exercisable for any of the foregoing.

“FAL Master Agreement” means that certain Flash Alliance Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk Ireland, dated as of July 7, 2006.

“FAL Operating Agreement” means that certain Operating Agreement of Flash Alliance, Ltd., entered into by and between TSB and SanDisk Ireland, dated as of July 7, 2006.

“FFL Master Agreement” means that certain Flash Forward Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk Flash, dated as of July 13, 2010.

“FFL Operating Agreement” means that certain Operating Agreement of Flash Forward, Ltd., entered into by and between TSB and SanDisk Flash, dated as of March 1, 2011.

“FPL Master Agreement” means that certain Flash Partners Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk International Limited, dated as of September 10, 2004.

“FPL Operating Agreement” means that certain Operating Agreement of Flash Partners, Ltd., entered into by and between TSB and SanDisk International Limited, dated as of September 10, 2004.

“Governmental Authority” means any (a) nation, principality, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or Person and any court or other tribunal); or (d) individual, Person or body (including any stock exchange) exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.

“Initial Restricted Period” means, subject to Section 3.2(e), the period beginning as of the Effective Date and ending as of the earliest of (i) the termination of the SPA, (ii) the closing of a WD Competitor CoC, (iii) **** (solely with respect to ****) or the third (3rd) anniversary (with respect to ****) of the closing of the TMC Sale, or (iv) **** of the Effective Date.

“Investment Vehicle” means an entity, a principal purpose of which is investing in TMC or Pangea, including such an entity Controlled by Bain Capital.

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“Intellectual Property” means, as applicable under each Existing Agreement or Transaction Document, any Patents, utility models, trademarks, service marks, trade names, copyrights, moral rights, applications for any of the foregoing, know-how, trade secrets, technology, mask work rights, software, technical, confidential or proprietary information, proprietary rights and processes, developments, ideas, inventions, test programs, test methods, configured and developed hardware, knowledge, research, invention disclosures, engineering notebooks, data, materials, licenses, and intellectual property or proprietary rights in or to any of the foregoing.

“JV Articles of Incorporation” means the Articles of Incorporation of FPL, FAL, and FFL, as may be amended from time to time.

“JV Rights”, with respect to any Person, means (a) all rights and obligations of such Person under the Existing Agreements and (b) such Person’s JV Shares.

“JV Shares” means any interest in FPL, FAL, or FFL as referenced in Section 9.1(a) of the FPL Operating Agreement, FAL Operating Agreement, and FFL Operating Agreement, respectively, including: (i) the equity interests in FPL described as “FP Units” in the FPL Master Agreement and “Units” in Appendix A to the FPL Master Agreement and in the FPL Operating Agreement, (ii) the equity interests in FAL described as “FA Shares” in the FAL Master Agreement and “Shares” in Appendix A to the FAL Master Agreement and in the FAL Operating Agreement, and (iii) the equity interests in FFL described as “FF Interests” in the FFL Master Agreement and “Interests” in Appendix A to the FFL Master Agreement and in the FFL Operating Agreement.

“Law” means all applicable provisions of all (a) constitutions, treaties, statutes, laws (including common law), rules, regulations, ordinances or codes, (b) orders, decisions, judgments, awards or decrees; and (c) requests, guidelines or directives (whether or not having the force of law), in each case of any Governmental Authority of any applicable jurisdiction.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right with respect to such securities.

“Master Agreements” means the FAL Master Agreement, the FFL Master Agreement and the FPL Master Agreement.

“Memory Business Owner” means a Person, to the extent that (i) such Person, together with its wholly-owned Subsidiaries, holds or owns all of its and its Affiliates’ Collaboration Assets (which need not include **** and the Undertaking, but subject to Section 3.7(f) with respect to ****), (ii) such Person and/or one or more of its wholly-owned Subsidiaries is a party to all Collaboration Agreements (which need not include **** and the Undertaking, but subject to Section 3.7(f) with respect to ****) to which such Person or any of its Affiliates is a party, (iii) such Person, or one or more of its wholly-owned Subsidiaries, is responsible for, or has agreed to be responsible for, all liabilities and obligations of such Person and its Affiliates under the Collaboration Agreements (which need not include **** and the Undertaking, but subject to Section 3.7(f) with respect to ****) (such liabilities and obligations, “Collaboration Liabilities”), (iv) such Person or one or more of its wholly-owned Subsidiaries employs substantially all Persons employed by such Person or its Affiliates that are primarily engaged in performing any liabilities and obligations of such Person and its Affiliates under the Collaboration Agreements (which need not include **** and the Undertaking) and (v) immediately following a Change of Control of such Person, such Person and its wholly-owned Subsidiaries continues to: (A) hold or own

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all Collaboration Assets that such Person and its wholly-owned Subsidiaries held or owned immediately prior to such Change of Control, or alternative Collaboration Assets such that such Person and its wholly-owned Subsidiaries remain able to satisfy and discharge such Person's and its wholly-owned Subsidiaries' Collaboration Liabilities; (B) be a party to each Collaboration Agreement to which such Person or any of its wholly-owned Subsidiaries was a party immediately prior to such Change of Control, or in each case to an alternative Collaboration Agreement or Collaboration Agreements agreed with the counterparty(ies) to such Collaboration Agreement; (C) be responsible for all liabilities and obligations under each Collaboration Agreement for which such Person or any of its wholly-owned Subsidiaries was liable immediately prior to such Change of Control or under any alternative Collaboration Agreement(s) entered in accordance with clause (B) above; and (D) employ (or otherwise contractually engage) substantially all Persons that such Person and its wholly-owned Subsidiaries employed immediately prior to such Change of Control that were, at such time, primarily engaged in performing any liabilities and obligations of such Person and its wholly-owned Subsidiaries under the Collaboration Agreements, or employ (or otherwise contractually engage) alternative Persons such that such Person and its wholly-owned Subsidiaries remain able to satisfy and discharge such Person's and its wholly-owned Subsidiaries' Collaboration Liabilities.

“New Y2 Facility Agreement” means that certain New Y2 Facility Agreement, entered into by and among TSB, SanDisk, and the JVs, dated as of October 20, 2015.

“Operating Agreements” means the FAL Operating Agreement, the FFL Operating Agreement and the FPL Operating Agreement.

“Pangea Financing Arrangement” means any contract entered into or proposed to be entered into by TMC, Bain Capital or any of their respective Affiliates for the purpose of financing the TMC Sale or for the operations or activities of TMC and its Subsidiaries, in each case, at the closing of the TMC Sale.

“Pangea Shareholders Agreement” means the shareholders agreement to be executed by and among BCPE Pangea Cayman, L.P., BCPE Pangea Cayman2, Ltd., TSB and Hoya Corporation in connection with the proposed acquisition by Pangea of TMC.

“Patent” means any type of patent, utility model, or design patent (including without limitation, originals or divisions, continuations, continuations-in-part, reissues, counterparts, substitutions, re-examinations, and extensions) or applications therefor in any country of the world.

“Person” means any individual or entity, including any private or public real estate operating company or real estate investment trust, exempted company, exempted limited partnership, private limited company, corporation, partnership, limited partnership, limited liability company, trust, charitable trust or other legal entity, wherever organized, or any unincorporated association or Governmental Authority.

“Qualified Exchange” means any of the internationally recognized stock exchanges based in Tokyo, New York, London, Hong Kong or Singapore.

“SK” means SK hynix, Inc. and its Affiliates; ****

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“Subsequent Bain Transaction” means, if the SPA is terminated, any direct or indirect acquisition (whether by merger, consolidation or otherwise) or ownership by Bain Capital, any Affiliates (as defined herein or as the term “Affiliate” is used in and construed under Rule 144 under the U.S. Securities Act of 1933, as amended) of Bain Capital, or any group or consortium that includes Bain Capital or an Affiliate of Bain Capital as a member (collectively, a “Subsequent Bain Acquiror”) of (i) any Equity Interests or voting rights in TMC or any of its Subsidiaries pursuant to a Transfer by TSB or any of its Affiliates to a Subsequent Bain Acquiror, (ii) any Equity Interests or voting rights in TMC or any of its Subsidiaries pursuant to an issuance by TMC or any of its Subsidiaries, (iii) any Equity Interests or voting rights in TMC or any of its Subsidiaries (including any Person that directly or indirectly holds or owns JV Rights), other than, in the case of this subclause (iii), any such acquisition or ownership by such Subsequent Bain Acquiror that does not result in or constitute TMC or any of its Subsidiaries being Controlled by such Subsequent Bain Acquiror, or (iv) substantially all of the assets of TMC or its Subsidiaries.

“Subsequent Restricted Period” means the period beginning as of the closing of a Subsequent Bain Transaction and ending as of the earliest of (i) the closing of a WD Competitor CoC, (ii) **** (solely with respect to ****) or the third (3rd) anniversary (with respect to ****) of the closing of such Subsequent Bain Transaction, or (iii) **** of the Effective Date.

“Subsidiary” of any Person means any other Person:

- (i) more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or
- (ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions (equivalent to those generally reserved for the board of directors of a corporation) for such other Person is, now or hereafter owned or Controlled, directly or indirectly, by such Person, but such other Person shall be deemed to be a Subsidiary only so long as such ownership or Control exists; provided, however, that the term Subsidiary, when used in relation to a Party or any of its Affiliates, shall not include any JV or any of the JVs’ Subsidiaries or any new joint venture entity (or any Subsidiary of any such new joint venture entity) created as a result of a new agreement between WD or any of its Subsidiaries, on one side, and TMC or any of its Subsidiaries, on the other side, relating to the Collaboration.

“TMC Group” means TMC, Bain Capital and all of their respective Affiliates.

“TMC Memory Business Owner” means a Memory Business Owner that is, immediately prior to a Change of Control of such Memory Business Owner, Controlled by TMC or any of its Affiliates.

“Transfer” means any transfer, distribution in kind, sale, assignment, conveyance, creation of any Lien, or other disposal or delivery, including by dividend, distribution, merger, business combination, split-off, spin-off, consolidation or otherwise, whether made directly or indirectly, voluntarily or involuntarily, absolutely or conditionally, or by operation of law or otherwise.

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“Transferee” means a transferee of Equity Interests in any Investment Vehicle, TMC, Pangea, any entity Controlling TMC or Pangea or any Subsidiary thereof, whether pursuant to an issuance, Transfer or otherwise.

“WD Competitor CoC” means a Change of Control of WD or any WD Memory Business Owner that results in WD or such WD Memory Business Owner being Controlled by a Competitor (other than WD).

“WD Memory Business Owner” means a Memory Business Owner that is, immediately prior to a Change of Control of such Memory Business Owner, Controlled by WD or any of its Affiliates

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EXHIBIT A CERTAIN DEFINITIONS
EXHIBIT B EXISTING AGREEMENTS
EXHIBIT C PROCEEDINGS
EXHIBIT D WITHDRAWAL AND DISMISSAL PLEADINGS
EXHIBIT E MUTUAL RELEASE WITH BAIN CONSORTIUM MEMBERS
EXHIBIT F BAIN SETTLEMENT AGREEMENT
EXHIBIT G Y6 FACILITY AGREEMENT
EXHIBIT H FAL EXTENSION
EXHIBIT I FFL EXTENSION
EXHIBIT J FPL EXTENSION AMENDMENT
EXHIBIT K UNDERTAKING
EXHIBIT L TERMINATION AGREEMENT
EXHIBIT M PATENT CROSS LICENSE AGREEMENT BETWEEN WD AND TMC
EXHIBIT N PATENT CROSS LICENSE AGREEMENT BETWEEN WD AND TSB
EXHIBIT O AMENDED JMDY AGREEMENT
EXHIBIT P Y6 MCEIA
SCHEDULE 2.1 CORRESPONDENCE

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CONFIDENTIAL SETTLEMENT AND MUTUAL RELEASE AGREEMENT

This CONFIDENTIAL SETTLEMENT AND MUTUAL RELEASE AGREEMENT (this “Agreement”) is made as of December 12, 2017 (the “Effective Date”), by and among Western Digital Corporation, a Delaware corporation (“WD”), SanDisk LLC, a Delaware limited liability company (“SanDisk LLC”), SanDisk (Cayman) Limited, a Cayman Islands company (“SanDisk Cayman”), SanDisk (Ireland) Limited, a Republic of Ireland company (“SanDisk Ireland”), SanDisk Flash B.V., a Netherlands company (“SanDisk Flash,” and together with SanDisk LLC, SanDisk Cayman, and SanDisk Ireland, “SanDisk”), Bain Capital Private Equity, L.P., a Delaware limited partnership (“BCPE”), BCPE Pangea Cayman, L.P., a Cayman Islands limited partnership (“BCPE Cayman 1”), BCPE Pangea Cayman2, Ltd., a Cayman Islands exempted company (“BCPE Cayman 2”), Bain Capital Fund XII, L.P., a Cayman Islands limited partnership (“Bain Fund XII”), Bain Capital Asia Fund III, L.P., a Cayman Islands limited partnership (“Bain Asia III”), and K.K. Pangea, a Japanese corporation (“Pangea,” together with BCPE, BCPE Cayman 1, BCPE Cayman 2, Bain Fund XII and Bain Asia III, “Bain Capital”). WD, SanDisk LLC, SanDisk Cayman, SanDisk Ireland, SanDisk Flash, BCPE, BCPE Cayman 1, BCPE Cayman 2, Bain Fund XII and Bain Asia III shall each be referred to, individually, as a “Party” and, collectively, as the “Parties.” Certain capitalized terms used herein are defined herein and in Exhibit A of this Agreement.

WHEREAS, Toshiba Corporation, a Japanese corporation (“TSB”), engaged in an auction process soliciting bids for a sale of all or a part of Toshiba Memory Corporation, a Japanese corporation (“TMC”), which process ended on September 28, 2017 (the “Auction”);

WHEREAS, on September 28, 2017, TSB entered into the Share Purchase Agreement (the “SPA”) with Pangea for the sale of all of the shares of TMC, which sale is expected to be consummated by March 31, 2018 (such sale, together with the other transactions contemplated by and on the terms set forth in the SPA and related agreements and instruments and in compliance with Section 5.1 hereof, the “TMC Sale”);

WHEREAS, Pangea will be owned as of the closing of the TMC Sale by Bain Capital (other than Pangea), Hoya Corporation, a Japanese company (“Hoya”), Apple, Inc., a Delaware corporation (“Apple”), Kingston Technology Company, Inc., a Delaware corporation (“Kingston”), Seagate Technology LLC, a Delaware limited liability company (“Seagate”), and Dell Technology Inc., a Delaware corporation (“Dell”), and Pangea will receive financing from SK hynix, Inc., a South Korea company;

WHEREAS, TSB, TMC, WD and SanDisk have commenced the Proceedings;

WHEREAS, the Parties desire that TSB, TMC, WD and SanDisk settle the Proceedings;

WHEREAS, this Agreement is entered into concurrently with, and in support of, that certain Confidential Settlement And Mutual Release Agreement (the “TSB and TMC Settlement Agreement”) by and among TSB, TMC, WD and SanDisk;

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WHEREAS, execution of this Agreement is a requirement under, and condition precedent to, the effectiveness of the TSB and TMC Settlement Agreement;

NOW THEREFORE, in consideration of the promises, mutual covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. **Releases and Covenants Not to Sue.**

1.1 WD and SanDisk and Bain Capital Mutual Releases.

(a) WD and SanDisk, in each case on behalf of itself and its Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders, employees, representatives and agents (the "WD Releasers") each hereby releases and forever discharges Bain Capital and its respective Affiliates (excluding any Excluded Person), and its and their respective successors, assignees, predecessors, funds, officers, directors, managers, partners, shareholders, employees, representatives, attorneys and agents, but, in each case, excluding any Excluded Person (the "Bain Capital Releasees"), from all Claims (i) relating to, arising out of or in connection with the TMC Transfer; the TSB Transfer; the Auction (including TSB's and TMC's disclosure of confidential information regarding the Memory Business to bidders in the Auction or attorneys or consortium partners for due diligence purposes); acts, omissions, attempts, or efforts to acquire any or all shares of or interest in TMC; the Access Restrictions; the Fab 6 Unilateral Investment; or the TMC Sale; (ii) relating to the allegations that were or could have been asserted in the Proceedings; and/or (iii) that were asserted or threatened to be asserted in any of the correspondence set forth in Schedule 1.1 of this Agreement. WD and SanDisk, in each case on behalf of itself and the other WD Releasers, covenants not to (and to cause its respective Affiliates, and its and their respective successors, predecessors, assignees, officers, directors, shareholders (in their capacity as such), employees, representatives and agents, not to) sue or assert any Claims released in this Section 1.1(a) against the Bain Capital Releasees in any forum.

(b) Bain Capital, on behalf of itself and its Affiliates (excluding any Excluded Person), and its and their respective successors, assignees, predecessors, funds, officers, directors, managers, partners, shareholders, employees, representatives, attorneys and agents, but, in each case, excluding any Excluded Person (the "Bain Capital Releasers") each hereby releases and forever discharges each of WD, SanDisk, their respective Affiliates, and its and their respective successors, assignees, predecessors, officers, directors, shareholders, employees, representatives, attorneys and agents (the "WD Releasees"), from all Claims (i) relating to, arising out of or in connection with the TMC Transfer; the TSB Transfer; the Auction; acts, omissions, attempts, or efforts to acquire any or all shares of or interest in TMC; the Access Restrictions; the Fab 6 Unilateral Investment; or the TMC Sale; (ii) relating to the allegations that were or could have been asserted in the Proceedings; and/or (iii) that were asserted or threatened to be asserted in any of the correspondence in Schedule 1.1 of this Agreement. Bain Capital, on behalf of itself and the other Bain Capital Releasers, covenants not to (and to cause its respective Affiliates, and its and their respective successors, predecessors, funds, assignees, officers, directors, managers, partners (in their capacities as such), shareholders, employees, representatives and agents, not to) sue or assert any Claims released in this Section 1.1(b) against the WD Releasees in any forum.

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1.2 Waiver. Each of WD and SanDisk, on behalf of itself and the other WD Releasors, and Bain Capital, on behalf of itself and the other Bain Capital Releasors, hereby irrevocably and forever waives all rights it may have arising under California Civil Code Section 1542, or any analogous requirement of Law, with respect to the Proceedings and the releases set forth in Sections 1.1(a) and 1.1(b). In addition, each of WD and SanDisk, on behalf of itself and the other WD Releasors, and Bain Capital, on behalf of itself and the other Bain Capital Releasors, hereby confirm that they understand that Section 1542 provides that the releases contemplated by Sections 1.1(a) and 1.1(b) are intended to and do operate as full and final releases of all claims within the scope of the releases, including all unknown, unsuspected, or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character, and specifically and expressly waives and releases all rights under the provisions of Section 1542 and any like or similar statute or common law doctrine in any jurisdiction. Each of WD and SanDisk, on behalf of itself and the other WD Releasors, and Bain Capital, on behalf of itself and the other Bain Capital Releasors, hereby confirms that it understands that Section 1542 provides that:

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

Each Party acknowledges that it has been fully informed by its counsel concerning the effect and import of this Agreement under California Civil Code Section 1542 and other analogous requirements of Law. Each Party acknowledges that the releases in Sections 1.1(a) and 1.1(b) are intended to include in their respective effects, without limitation, claims which they do not know of or suspect exist in their favor and that such releases extinguishes all claims within the scope of the releases. The Parties acknowledge that they are aware that they may hereafter discover facts in addition to or different from those which they now know or believe to be true with respect to the releases set forth in Sections 1.1(a) and 1.1(b), but that they intend to, and do hereby, fully, finally and forever settle, release and discharge all Proceedings, and all Claims within the scope of such releases, without regard to the subsequent discovery or existence of different or additional facts.

1.3 No Admission. This Agreement is entered into in order to compromise and settle disputed Claims, without any acquiescence, acknowledgement, or agreement by any Party as to the merit of any Claims or defenses. Neither this Agreement nor any part thereof shall be, or be used as, an admission by anyone, at any time, for any purpose. In addition, without limitation or modification of the provisions set forth in Sections 2.2(a) and 2.2(b) hereof, the inclusion in this Agreement of any consent or approval, or of any requirement to provide consent or approval, by any Party shall not be, or be used as, an admission by anyone that any such consent or approval is required under any Existing Agreement or otherwise.

1.4 Attorneys' Fees and Costs. Each Party shall be responsible for its own costs and attorneys' fees, if any, in connection with this Agreement.

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2. Consents.

2.1 WD and SanDisk Consents.

(a) Subject to Sections 2.2(a) and 2.2(b), WD and SanDisk each hereby irrevocably consent to, and shall cause its Subsidiaries to irrevocably consent to, any Transfer of Equity Interests in TMC or Pangea (or Equity Interests of any entity Controlling TMC or Pangea) by Bain Capital or any member of the Bain Consortium or their respective Affiliates to any Transferee and any subsequent Transfer by such Transferee to any Person (which Person shall also constitute a Transferee).

(b) For clarity, (i) subject to Sections 2.2(a) and 2.2(b), the consents set forth in Section 2.1(a) satisfy any requirement to obtain the consent of SanDisk or any of its Affiliates pursuant to any Existing Agreement with respect to the matters set forth in Section 2.1(a) and (ii) the consents set forth in Section 2.1(a), subject to Sections 2.2(a) and 2.2(b), with respect to a Transfer or issuance of Equity Interests in TMC, Pangea or any entity Controlling TMC or Pangea shall include consent with respect to any resulting indirect Transfer of TMC's JV Rights.

2.2 Transfer Restrictions. Notwithstanding anything to the contrary in Section 2.1(a), during the pendency of the Restricted Period but not during any other period:

(a) WD's separate prior written consent shall be required for each of the following unless and until there is a closing of a WD Competitor CoC:

(i) any issuance or granting by TMC, Pangea or an Investment Vehicle of Equity Interests in, or the power to direct the voting or Control of, TMC, Pangea or any of their respective Subsidiaries, in either case to a Competitor, other than (A) an issuance of passive Equity Interests (including limited partnership economic rights) in an Investment Vehicle, or Equity Interests in TMC or Pangea to **** with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC (following a bona fide good faith determination by the board of directors of Pangea that such issuance helps to satisfy TMC's liquidity needs and is otherwise in the best interests of TMC as compared to other sources of financing reasonably available to TMC or Pangea); provided, that, after giving effect to any such issuance, **** does not (y) hold or own, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC or Pangea in excess of an amount equal to **** of, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (z) hold or own, directly or indirectly, or have the right to acquire, any voting or Control rights in, TMC, Pangea or any of their respective Subsidiaries in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis, (B) an issuance of Equity Interests in TMC, Pangea or any Investment Vehicle or any of their respective Subsidiaries to TSB or any of its wholly-owned Subsidiaries, in each case, acting solely for its own account and not on behalf of, or for the account of, any other Competitor, with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC; provided that none of TSB nor its Affiliates has any agreement providing any Competitor with the right to vote or acquire such Equity Interests; provided, further that, after giving effect to any such issuance, TSB and its Affiliates collectively do not hold or own, or have the right to acquire, Equity

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Interests or voting rights in TMC or Pangea in an amount that would constitute, or result in, a Change of Control of TMC, Pangea or any of their respective Subsidiaries or (C) following the third (3rd) anniversary of the closing of a Bain Transaction, an issuance of Equity Interests in TMC or Pangea, to **** or any of its Affiliates in amount up to ****, in the aggregate, of the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis solely in connection and simultaneous with a bona fide primary sale of Equity Interests in TMC or Pangea to multiple purchasers in addition to **** or its Affiliates, with the proceeds of any such issuance ultimately being used solely in the business or operations of TMC (following a bona fide good faith determination by the board of directors of Pangea that such issuance helps to satisfy TMC's liquidity needs and is otherwise in the best interests of TMC as compared to other sources of financing reasonably available to TMC or Pangea);

(ii) any repurchase of direct or indirect Equity Interests by TMC or Pangea, or any recapitalization or similar transaction involving a member of the TMC Group, to the extent that any such repurchase, recapitalization or similar transaction, together with all previous repurchases, recapitalizations, or similar transactions, would result in **** (y) holding or owning, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC, Pangea or any of their respective Subsidiaries, other than Equity Interests in TMC or Pangea not in excess of an amount equal to **** of, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (z) holding or owning, directly or indirectly, or having the right to acquire, any voting rights in TMC or any of its Subsidiaries, other than voting rights in TMC or Pangea not in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis, in each case, unless **** holds or owns, directly or indirectly, or has the right to acquire, voting rights or Equity Interests in TMC or Pangea in an amount in excess of such threshold at the time of the repurchase, recapitalization or similar transaction, in which case such transaction shall not be permitted unless it does not result in any increase in the percentage of voting rights or Equity Interests of **** and its Affiliates collectively in TMC or Pangea, as applicable;

(iii) any Transfer by TSB, Bain Capital or any of their respective Affiliates, or any consent by TSB, Bain Capital or any of their respective Affiliates, to the Transfer (whether by amendment, waiver, consent, modification or other action, with respect to or under the Pangea Shareholders Agreement (or any shareholder agreement in respect of a Subsequent Bain Transaction), the governance documents of any Bain Capital entity, or otherwise), by any other Person of, any Equity Interests or voting rights in TMC, Pangea or any of their respective Subsidiaries to a Competitor, other than (A) a Transfer by Bain Capital of Equity Interests or voting rights in Pangea or TMC to **** only to the extent such Transfer is made simultaneously with (1) a bona fide primary sale of securities by TMC or Pangea to **** permitted under Section 2.2(a)(i) or (2) the initial public offering of TMC, Pangea or any entity Controlling TMC or Pangea; provided that (y) in no event may Bain Capital Transfer to **** pursuant to this Section 2.2(a)(iii) Equity Interests or voting rights that exceed **** of the Equity Interests or voting rights in TMC or Pangea, as applicable, in the aggregate (taken together with all Transfers by Bain Capital to ****); and (z) after giving effect to any such primary sale and Transfer, **** does not (1) hold or own, directly or indirectly, (other than through a passive investment in an Investment Vehicle) Equity Interests in TMC or Pangea in excess of an amount equal to **** (in the case of a Transfer to **** pursuant

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to Section 2.2(a)(iii)(A)(1) of, and **** (in the case of a Transfer to **** pursuant to Section 2.2(a)(iii)(A)(2)) of, in either case, plus an amount equal to the **** of, the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis or (2) hold or own, directly or indirectly, or have the right to acquire, any voting or Control rights in TMC or any of its Subsidiaries in excess of an amount equal to **** of, plus an amount equal to the **** of, the total voting rights in TMC or Pangea on an as-converted basis; and (B) following the third (3rd) anniversary of the closing of a Bain Transaction, a Transfer of Equity Interests or voting rights in Pangea, TMC, or any entity Controlling TMC or Pangea by Bain Capital to **** or any of its Affiliates in an amount up to the ****, in the aggregate, of the total Equity Interests in TMC or Pangea on a fully diluted and as-converted basis; and

(iv) a transaction constituting a Change of Control of TMC, Pangea or any of their respective Subsidiaries that results in Control of TMC, Pangea or any of their Subsidiaries by a Competitor.

(b) (i) Notwithstanding anything herein to the contrary, in no event shall the Parties permit (A) any of ****, **** or **** to own or hold, or have the right to acquire, any Equity Interests or voting rights in TMC if any of ****, **** or **** own or hold, or have the right to acquire, any Equity Interests or voting rights in Pangea and (B) any of ****, **** or **** be permitted to own or hold or have the right to acquire, any Equity Interests or voting rights in Pangea if any of ****, **** or **** own or hold, or have the right to acquire, any Equity Interests or voting rights in TMC. Except as otherwise set forth in this Agreement, the conditions for Transfer, admission and/or withdrawal, to the extent applicable, set out in any Existing Agreement, including for the avoidance of doubt, Article 9 and Section 4.1(a)(ix) of the applicable JV's Operating Agreement and Section 5.1(b) of the applicable JV's Master Agreement, shall continue to apply.

(ii) As a condition to any Transfer or issuance of Equity Interests or voting rights in TMC, Pangea or an Investment Vehicle, the transferor (or issuer) shall cause any Transferee to enter into an agreement with TMC or Pangea, as applicable, that requires such Transferee, subject to the other provisions of Section 2, to comply with the restrictions on Transfer set forth herein, and other provisions provided in Sections 2.2(a) and 2.2(b) (the "Transfer Restrictions"), which agreement shall provide that WD and SanDisk are intended third-party beneficiaries of the Transferee's obligation to abide by the Transfer Restrictions with direct rights of enforcement against such Transferee, provided that after the Transferee enters into an agreement with TMC to accede to the Transfer Restrictions, the transferring shareholder will not have any obligation or liability relating to, arising out of, or in connection with a Transferee's failure to comply with the Transfer Restrictions and TMC or Pangea, as applicable, shall provide WD a copy of such agreement upon execution thereof.

(c) For purposes of this Section 2.2, any reference to a "Subsidiary" shall only include a Subsidiary that, directly or indirectly, holds, owns or Controls JV Rights.

(d) Upon the consummation of an initial public offering of TMC or Pangea or any entity Controlling TMC or Pangea or, if required by the applicable Qualified Exchange, not more than thirty (30) days prior to the anticipated consummation of such initial public offering on a Qualified Exchange, the Parties agree that the terms of this Section 2.2 will be deemed amended

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to the limited extent necessary for the issuer to comply with the listing requirements imposed by such Qualified Exchange on such issuer and in a manner that preserves the Transfer Restrictions hereunder to the maximum extent permissible; provided, that if an initial public offering is not consummated within forty five (45) days following the date on which the Transfer Restrictions were deemed modified, the Transfer Restrictions shall be deemed reinstated retroactively to the date of such deemed modification.

2.3 Change of Control by Pangea. Section 3.7 of the TSB and TMC Settlement Agreement is incorporated herein by reference, and Pangea hereby agrees that upon the closing of the TMC Sale (i) it will be a Memory Business Owner (as defined in the TSB and TMC Settlement Agreement) and (ii) it shall be bound by such Section 3.7 of the TSB and TMC Settlement Agreement and Sections 2.2 and 3.6 of the Parent Guarantee and Undertaking as to Collaboration entered into by and between WD, TSB and TMC on the date hereof (the "Undertaking"), for the benefit of all counterparties to the Undertaking and the Collaboration Agreements (as defined in the TSB and TMC Settlement Agreement).

3. **Representations and Warranties**. Each Party represents and warrants to the other Parties that, as of the Effective Date:

3.1 Organization and Standing. It is duly organized and validly existing and in good standing under the Laws of the jurisdiction in which it is organized.

3.2 Authority; Enforceability. It has the requisite power and authority to enter into this Agreement and to perform its obligations hereunder. All proceedings required to be taken by it to authorize the execution, delivery and performance of this Agreement have been properly taken. This Agreement has been duly and validly executed and delivered by it and constitutes a valid and binding obligation of it, enforceable against it in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights generally or the availability of equitable remedies (regardless of whether enforceability is considered in a proceeding at law or in equity).

3.3 No Conflict. The execution, delivery and performance of this Agreement by it do not and will not (a) breach, violate or conflict with any provision of its charter documents as amended to date or (b) conflict with or violate any Law applicable to it.

3.4 No Assigned Claims. It has not assigned to any third party any Claim that is otherwise within the scope of the release it is giving under this Agreement.

4. **Confidentiality**.

4.1 ****

4.2 Confidentiality of Agreement. No Party shall, or shall permit any of its Affiliates to, without the prior written consent of the other Parties, issue any public statement, release, announcement or other document, or otherwise publicly disclose or file, all or any part of this Agreement or any description or terms or conditions hereof, except as may be required by applicable

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Law, including as required to be disclosed by applicable securities or other Laws, provided, that notwithstanding anything herein to the contrary, the Party required to make a disclosure shall, prior to any such disclosure required by the U.S. Securities and Exchange Commission or the Financial Services Authority of Japan, provide the other Parties with notice which includes a copy of the proposed disclosure and consider in good faith such other Parties' timely input with respect to such disclosure, and, in the case of disclosures or filings required pursuant to Laws other than the Laws and regulations of the U.S. Securities and Exchange Commission or Financial Services Authority of Japan, the Party required to make the applicable disclosure or filing shall cooperate with the other Parties, to the fullest extent practicable under applicable Law, in obtaining any confidential treatment for such disclosure or filing requested by the other Parties prior to making such disclosure or filing, to the extent practicable. Each Party shall use its commercially reasonable efforts to grant or deny any consent required under this Section 4 with respect to the Laws, other than the Laws and regulations of the U.S. Securities and Exchange Commission and the Financial Services Authority of Japan, within five (5) Business Days of receipt of written request by any other Party; provided, however, that a Party's failure to respond within said time period shall not be deemed to constitute such Party's consent. Notwithstanding the foregoing, Pangea may disclose all or part of this Agreement, the TSB and TMC Settlement Agreement, and/or the Transaction Documents in connection with obtaining regulatory approvals of the TMC Sale, subject to an obligation to cooperate with the other Parties to this Agreement and TSB and TMC, to the fullest extent practicable under applicable Law, in obtaining any confidential treatment for such disclosure or filing requested by the other Parties prior to making such disclosure or filing, to the extent practicable.

4.3 Public Announcements. Subject to Section 4.2, the contents and timing of the initial public announcement regarding this Agreement and/or the subject matter hereof shall be mutually agreed between the Parties prior to the public release of such announcement, and any further public announcements, by or on behalf of a Party shall not be inconsistent with public announcements previously agreed upon by the Parties; provided, however, notwithstanding the foregoing, each Party will be allowed to respond publicly to third party inquiries regarding this Agreement and the subject matter hereof in a manner consistent with any public filings pursuant to Section 4.2 made by such Party. Nothing in this Section 4.3 shall be construed as restricting any Party's confidential communications with third parties (including Governmental Authorities or regulators), and in no event shall any Party have any liability or obligation to any other Party with respect thereto.

5. Additional Commitments and Representations.

5.1 Capitalization and Governance of Pangea. Bain Capital will take all actions necessary so that immediately following the closing of the TMC Sale (i) Pangea will own 100% of the issued and outstanding Equity Interests in TMC and (ii) no Competitor other than **** will hold any voting rights in TMC. Immediately following the closing of the TMC Sale, (a) Bain Capital (other than Pangea) will have the right to nominate **** of the members of the board of directors of Pangea, (b) **** will not hold any voting rights in any member of the TMC Group, (c) excluding any interest held indirectly through ****'s passive limited partner interest in ****, **** will not beneficially own more than **** of the voting common equity of Pangea, assuming conversion in full of all Equity Interests held by ****, (d) the ultimate Controlling person of **** is **** and (e) **** (other than to the extent permitted hereby or as required by Law) will not have any voting rights or

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consent rights with respect to the activities of TMC, Pangea or their respective Subsidiaries. Neither **** nor **** will have a right to designate, nor will they have designated, a board member or observer at TMC, Pangea or any of their respective Subsidiaries.

5.2 Disclosure of Pangea Financing Arrangements. Bain Capital has disclosed to WD a true, correct and complete copy of a redacted term sheet that relates to committed senior debt financing for the TMC Sale in effect as of the date hereof (the "Bank Term Sheet"), which term sheet may be redacted as to interest rates, fee amounts, leverage ratios, loan maturity and other commercially sensitive numbers and which, for the avoidance of doubt, includes all (and does not redact any) terms related to the grant of security in favor of the senior lenders and all terms relating to the JVs and the JV Rights. Bain Capital shall provide to WD a true, correct and complete copy of the executed definitive documentation relating to the Pangea Financing Arrangements contemplated by the Bank Term Sheet, within four (4) Business Days following execution thereof, which may be redacted only in a manner consistent with the previous sentence.

5.3 Disclosure of **** and **** Arrangements. Except for true, correct and complete copies of Contracts disclosed to WD prior to the date hereof (which Contracts have only been redacted to exclude disclosure of the waterfall and cost sharing provisions), there are no Contracts in effect or contemplated, as of the date hereof, to be in effect between Bain Capital on the one hand and **** or **** on the other hand, relating to the ownership, voting, Transfer or Control of Equity Interests in any member of the TMC Group.

5.4 Pangea Shareholders Agreement. Bain Capital has disclosed to WD a true, correct and complete copy of the term sheet for the Pangea Shareholders Agreement. From the closing of a Bain Transaction until the earlier of (a) **** following the closing of a Bain Transaction and (b) an initial public offering of TMC or Pangea or any entity Controlling TMC or Pangea, Bain Capital shall cause a shareholders' agreement to be executed by all holders of Equity Interests in TMC or a Person of whom TMC is a wholly-owned Subsidiary which shall be effective as of the closing of a Bain Transaction, and which shall contain a prohibition on Transfer of Equity Interests in TMC or a Person of whom TMC is a wholly-owned Subsidiary by any holder thereof, which prohibition shall require the approval of both of TSB (for so long as TSB holds at least **** of the Equity Interests or voting rights in Pangea) and Bain Capital to amend, waive, modify, or grant any consent with respect thereto.

6. Term and Termination.

6.1 Term. This Agreement shall be effective as of the Effective Date and shall remain in full force and effect until the earlier of (a) the termination of the TSB and TMC Settlement Agreement and (b) termination by written agreement of all of the Parties hereto.

6.2 Survival. Sections 1, 2, 4.2, 4.3, 6.2 and 7 shall survive any expiration or termination of this Agreement.

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7. Miscellaneous.

7.1 Entire Agreement. This Agreement, together with the exhibit(s) and schedules hereto, constitute the entire agreement of the Parties to this Agreement with respect to the subject matter hereof and supersedes all prior written and oral agreements and understandings with respect to such subject matter.

7.2 Undertaking as to Affiliate Obligations. Each Party shall cause all covenants, conditions and agreements that are required to be performed, observed or satisfied by any of its Affiliates under this Agreement to be fully and faithfully observed, performed and satisfied by such Affiliate, and shall not cause or permit to exist any breach or default of such covenants, conditions or agreements arising from such Affiliate's action or inaction. Nothing expressed or implied in this Agreement shall be construed to create any right in any Person other than the Parties; provided that the parties to the Undertaking and the Collaboration Agreements that are not Parties hereto shall be third party beneficiaries of Section 2.3 and shall be entitled to rely upon and enforce such sections of this Agreement, but no other sections of this Agreement.

7.3 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such state without regard to the conflict of laws principles of such state.

7.4 Dispute Resolution; Arbitration. Any dispute concerning this Agreement shall be settled by confidential, binding arbitration in San Francisco, California. The dispute shall be heard by a panel of three arbitrators pursuant to the rules of the International Chamber of Commerce. Such arbitration shall be conducted in English. The awards of such arbitration shall be final and binding upon the parties thereto. Each Party will bear its own fees and expenses associated with the arbitration. Filing fees and arbitrator fees charged by the International Chamber of Commerce shall be borne equally by the claimant(s), on one hand, and the respondent(s), on the other hand, to such arbitration.

7.5 Equitable Relief. Equitable relief, including the remedies of specific performance and injunction, shall be available with respect to any actual or attempted breach or violation of, or failure to obtain consent when required under, this Agreement; provided, however, in the absence of exigent circumstances, the Parties shall refrain from commencing any lawsuit or seeking judicial relief in connection with such actual or attempted breach and resolve the subject dispute in accordance with the procedures set forth in Section 7.4.

7.6 Relationship of the Parties. The Parties are independent contractors and no provision of or action pursuant to this Agreement shall constitute any Party acting as the direct or indirect agent or partner of any other Party for any purpose or in any sense whatsoever. Nothing contained in this Agreement is intended to, or shall be deemed to, create a partnership or fiduciary relationship between or among the Parties. No Party shall take a position contrary to this Section 7.6.

7.7 Official Language. The official language of this Agreement is the English language only, which language shall be controlling in all respects, and all versions of this Agreement in any other language shall not be binding on the Parties nor shall such other versions be admissible in

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any legal proceeding, including arbitration, brought under this Agreement. All communications and notices to be made or given pursuant to this Agreement shall be in the English language.

7.8 Interpretation.

(a) Treatment of Ambiguities. The Parties acknowledge that each Party has participated in the drafting of this Agreement, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(b) References; Construction. Unless otherwise indicated herein, with respect to any reference made in this Agreement to a Section, Exhibit or Schedule, such reference shall be to a section of, or an exhibit or a schedule to, this Agreement. The section headings contained in this Agreement and the recitals at the beginning of this Agreement are for reference purposes only and shall not, other than to define the capitalized terms defined therein, affect in any way the meaning or interpretation of this Agreement or any other agreement. The words “include,” “includes” and “including,” when used in this Agreement, shall be deemed to be followed by the phrase “without limitation.” The words “herein,” “hereof,” “hereunder” and words of like import shall refer to this Agreement as a whole (including its exhibits and schedules), unless the context clearly indicates to the contrary. Any reference made in this Agreement to any Existing Agreement shall be deemed, unless the context clearly indicates to the contrary, to refer to such Existing Agreement as such Existing Agreement may be amended or supplemented from time to time. As referred to herein, all references to “Pangea” or “TMC” shall be deemed to include the surviving entity in the TMC Merger.

7.9 Notices and Contact Information. All notices and other communications to be given or made under this Agreement shall be in writing and shall be deemed received (a) if delivered by hand, courier or overnight delivery service, when delivered, (b) if delivered by email, the earlier of (i) when the recipient, by an email sent to the email address for the sending party stated in this Section 7.9 or by a notice delivered by another method in accordance with this Section 7.9, acknowledges having received that email (provided, however, than an automatic “read receipt” will not constitute acknowledgement of an email for purposes of this Section 7.9 or (ii) when the email is delivered, if followed within two Business Days by delivery of a copy by hand, courier or overnight delivery service, or (c) five days after being mailed by certified or registered mail, return receipt requested, with appropriate postage prepaid and shall be directed to the address of such Party specified below (or at such other address as such Party shall designate by like notice):

(a) If to WD:

Western Digital Corporation
5601 Great Oaks Parkway
San Jose, CA 95119
Telephone: (408) 717-6000
E-mail: ****
Attention: Chief Legal Officer

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(b) If to SanDisk:

Western Digital Corporation
5601 Great Oaks Parkway
San Jose, CA 95119
Telephone: (408) 717-6000
E-mail: ****
Attention: Chief Legal Officer

(c) If to Bain Capital:

Bain Capital Private Equity, L.P.
5F, Palace Building
1-1-1 Marunouchi
Chiyoda-ku, Tokyo
Telephone: +81.3.6212.7070
Email: ****
Attention: Yuji Sugimoto, Managing Director

with a copy (which shall not constitute notice) to:

Ropes & Gray LLP
JP Tower 30F
Marunouchi 2-7-2
Chiyoda-ku, Tokyo 100-7030
Telephone: +81.3.6259.3514
Email: ****
Attention: Tsuyoshi Imai

7.10 Assignment. Except as expressly provided herein, no Party may Transfer this Agreement or any of its rights or obligations hereunder without the prior written consent of each of WD, SanDisk, Bain Capital (other than Pangea) and each of their respective successors (which consent may be withheld by such Party in such Party's sole discretion), and any such purported transfer without such consent will be void.

7.11 Amendment and Waiver. This Agreement may not be amended, modified or supplemented except by a written instrument executed by each Party. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

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7.12 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective successors and permitted assignees.

7.13 Severability. If a provision of this Agreement or the application of any such provision is or becomes illegal, invalid or unenforceable in any respect under any jurisdiction, that will not affect (a) the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement or (b) the legality, validity or enforceability in any other jurisdictions of that or any other provision of this Agreement. To the extent permitted by applicable Law, the Parties waive any provision of Law that renders any provision of this Agreement invalid, illegal or unenforceable in any respect. Such provision shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable comes closest to the intention of the Parties underlying such illegal, invalid or unenforceable provision.

7.14 Counterparts; Effectiveness. This Agreement may be executed in counterparts, each of which shall be binding as of the date first written above, and all of which shall constitute one and the same instrument. Each such counterpart shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one of each such counterpart. The exchange of copies of this Agreement and of signature pages by portable document format (.pdf) or other electronic format shall be deemed to be their original signatures for all purposes. This Agreement shall not become effective until one or more counterparts have been executed by each Party and delivered to the other Party.

[Signature Page Follows.]

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IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

WESTERN DIGITAL CORPORATION

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Executive Vice President, Chief Legal Officer and
Secretary

SANDISK LLC

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Sole Manager

SANDISK (CAYMAN) LIMITED

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

SANDISK (IRELAND) LIMITED

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

SANDISK FLASH B.V.

By: /s/ Michael C. Ray
Name: Michael C. Ray
Title: Director

[Signature Page to Confidential Settlement and Mutual Release Agreement]

BAIN CAPITAL PRIVATE EQUITY, L.P.

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Managing Director

BCPE PANGEA CAYMAN, L.P.

By: BCPE Pangea GP, LLC,
its general partner
By: Bain Capital Investors, LLC,
its sole member

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Managing Director

BCPE PANGEA CAYMAN2, LTD.

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Director

BAIN CAPITAL FUND XII, L.P.

By: Bain Capital Partners XII, LLC,
its general partner
By: Bain Capital Investors, LLC,
its manager

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Managing Director

BAIN CAPITAL ASIA FUND III, L.P.

By: Bain Capital Partners Asia III, L.P.,
its general partner
By: Bain Capital Investors, LLC,
its general partner

K.K. PANGEA

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Authorized Signatory

By: /s/ Steven W. Barnes
Name: Steven W. Barnes
Title: Managing Director

[Signature Page to Confidential Settlement and Mutual Release Agreement]

Exhibit A
Certain Definitions

“Affiliate” means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by or is under common Control with, the Person specified, and “Control”, when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or otherwise, and the terms “Controlling” and “Controlled” have meanings correlative to the foregoing; provided, however, that the term Affiliate (a) when used in relation to any JV or Subsidiary thereof, shall not include any Party or its Affiliates, and (b) when used in relation to a Party or its Affiliates, shall not include any JV or Subsidiary thereof.

“Access Restrictions” means those certain steps that WD and SanDisk claim that TSB and TMC took on or about June 28, 2017 to restrict WD and certain of its Subsidiaries (and its or their employees) from accessing facilities, databases, and information relating to the JVs and to refuse to ship engineering wafers and samples to locations designated by SanDisk, including in Milpitas, California.

“Auction Participants” means all bidders in the Auction and their attorneys and consortium partners, excluding Bain Capital and any member of the Bain Consortium.

“Bain Consortium” means the consortium formed in connection with the TMC Sale, consisting of Bain Capital; Hoya; Apple; Kingston; Seagate; Dell; and SK.

“Bain Transaction” means the TMC Sale or a Subsequent Bain Transaction, as applicable.

“Business Day” means any day (other than a day which is a Saturday, Sunday or legal holiday in the State of California or Japan) on which commercial banks are open for business in the State of California or Tokyo, Japan.

“Change of Control” with respect to a Person means (i) a transaction or series of related transactions as a result of which more than 50% of the beneficial ownership of the outstanding common stock or other ownership interests of such Person (representing the right to vote for the board of directors or similar organization of such Person) is acquired by another Person or affiliated group of Persons, whether by reason of stock acquisition, merger, consolidation, reorganization or otherwise or (ii) the sale or disposition of all or substantially all of a Person’s assets to another Person or affiliated group of Persons.

“Claims” means any and all claims, counterclaims, demands, losses, payments, Liens, expenses (including attorneys’ fees), damages, liabilities, financial obligations, indemnification obligation, actions, causes of action, disputes, debts or obligations of every kind and nature, whether contractual, in law or in equity (including, without limitation, under the Japanese Civil Code, the laws of the State of California, the Uniform Commercial Code (as codified by each state of the United States of America), and/or the United Nations Convention on Contracts for the International

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Sale of Goods) past or present, direct or indirect, known or unknown, suspected or unsuspected, fixed or contingent, and whether several or otherwise.

“Competitor” means ****

“Contract” any written or oral contract, instrument, agreement, arrangement, understanding or obligation, that is or purports to be binding on the parties thereto, including any commitment letter, fee letter, side letter, note, bond, indenture, mortgage, guarantee, undertaking, commitment, promise, option, lease, sublease, license or sublicense.

“Equity Interests” means, with respect to a Person, any common equity or common equity-equivalent interests or securities of such Person, including, any participating preferred securities, warrants, options or other rights to acquire any of the foregoing and debt securities that are or convertible into or exchangeable or exercisable for any of the foregoing.

“Excluded Person” means any member of the Bain Consortium (other than Bain Capital), any Auction Participant or any bank or financial institution or any of their respective Affiliates that may assert a Claim against any WD Releaser within the scope of Section 2.2(c) of the TSB and TMC Settlement Agreement.

“Existing Agreements” means the various agreements set forth in Exhibit B to the TSB and TMC Settlement Agreement.

“Fab 6 Unilateral Investment” means TMC’s decision and announcement on or about August 3, 2017 that TMC will unilaterally invest in manufacturing equipment for the Fab 6 cleanroom at Yokkaichi.

“FAL Master Agreement” means that certain Flash Alliance Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk Ireland, dated as of July 7, 2006.

“FAL Operating Agreement” means that certain Operating Agreement of Flash Alliance, Ltd., entered into by and between TSB and SanDisk Ireland, dated as of July 7, 2006.

“FFL Master Agreement” means that certain Flash Forward Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk Flash, dated as of July 13, 2010.

“FFL Operating Agreement” means that certain Operating Agreement of Flash Forward, Ltd., entered into by and between TSB and SanDisk Flash, dated as of March 1, 2011.

“FPL Master Agreement” means that certain Flash Partners Master Agreement, entered into by and among TSB, SanDisk Corporation and SanDisk International Limited, dated as of September 10, 2004.

“FPL Operating Agreement” means that certain Operating Agreement of Flash Partners, Ltd., entered into by and between TSB and SanDisk International Limited, dated as of September 10, 2004.

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“Governmental Authority” means any (a) nation, principality, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, subdivision, department, agency, bureau, branch, office, commission, council, board, instrumentality, officer, official, representative, organization, unit, body or Person and any court or other tribunal); or (d) individual, Person or body (including any stock exchange) exercising, or entitled to exercise, any executive, legislative, judicial, administrative, regulatory, police, military or taxing authority or power of any nature.

“Investment Vehicle” means an entity, a principal purpose of which is investing in TMC or Pangea, including such an entity Controlled by Bain Capital.

“JVs” means the three joint venture companies formed by TSB and SanDisk between 2004 and 2011: Flash Partners, Ltd., (“FPL”), Flash Alliance, Ltd., (“FAL”), and Flash Forward, Ltd., (“FFL”).

“JV Rights”, with respect to any Person, means (a) all rights and obligations of such Person under the Existing Agreements and (b) such Person’s JV Shares.

“JV Shares” means any interest in FPL, FAL, or FFL as referenced in Section 9.1(a) of the FPL Operating Agreement, FAL Operating Agreement, and FFL Operating Agreement, respectively, including: (i) the equity interests in FPL described as “FP Units” in the FPL Master Agreement and “Units” in Appendix A to the FPL Master Agreement and in the FPL Operating Agreement, (ii) the equity interests in FAL described as “FA Shares” in the FAL Master Agreement and “Shares” in Appendix A to the FAL Master Agreement and in the FAL Operating Agreement, and (iii) the equity interests in FFL described as “FF Interests” in the FFL Master Agreement and “Interests” in Appendix A to the FFL Master Agreement and in the FFL Operating Agreement.

“Law” means all applicable provisions of all (a) constitutions, treaties, statutes, laws (including common law), rules, regulations, ordinances or codes; (b) orders, decisions, judgments, awards or decrees; and (c) requests, guidelines or directives (whether or not having the force of law), in each case of any Governmental Authority of any applicable jurisdiction.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right with respect to such securities.

“Master Agreements” means the FAL Master Agreement, the FFL Master Agreement and the FPL Master Agreement.

“Operating Agreements” means the FAL Operating Agreement, the FFL Operating Agreement and the FFL Operating Agreement.

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“Pangea Financing Arrangement” means any Contract entered into or proposed to be entered into by TMC, Bain Capital or any of their respective Affiliates for the purpose of financing the TMC Sale or for the operations or activities of TMC and its Subsidiaries, in each case, at the closing of the TMC Sale.

“Pangea Shareholders Agreement” means the shareholders agreement to be executed by and among BCPE Cayman 1, BCPE Cayman 2, TSB and Hoya in connection with the proposed acquisition by Pangea of TMC.

“Person” means any individual or entity, including any private or public real estate operating company or real estate investment trust, exempted company, exempted limited partnership, private limited company, corporation, partnership, limited partnership, limited liability company, trust, charitable trust or other legal entity, wherever organized, or any unincorporated association or Governmental Authority.

“Proceedings” means the litigation and arbitration proceedings set forth on Exhibit C to the TSB and TMC Settlement Agreement, as well as any motion for a temporary restraining order, preliminary injunction, or other form of injunctive relief, pending or existing, between or among any of the parties to the cases identified in Exhibit C to the TSB and TMC Settlement Agreement.

“Qualified Exchange” means any of the internationally recognized stock exchanges based in Tokyo, New York, London, Hong Kong or Singapore.

“Restricted Period” means the period beginning on the date hereof and ending on the earlier to occur of (A) (i) with respect to ****, the third (3rd) anniversary of the closing of the Bain Transaction, (ii) with respect to ****, **** of the closing of the Bain Transaction and (iii) with respect to ****, the third (3rd) anniversary of the closing of the Bain Transaction, and (B) **** of the date hereof.

“SK” means SK hynix, Inc. and its Affiliates; ****.

“Subsequent Bain Transaction” means, other than the TMC Sale, any acquisition (whether by merger, consolidation or otherwise) of any Equity Interests or voting rights in TMC or any of its Subsidiaries (including any Person that directly or indirectly holds or owns JV Rights), or an acquisition of substantially all or a material portion of the assets of TMC or its Subsidiaries, by Bain Capital, any of its Affiliates or any group or consortium that includes Bain Capital as a member.

“Subsidiary” of any Person means any other Person:

- (i) more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or

**** Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions (equivalent to those generally reserved for the board of directors of a corporation) for such other Person is, now or hereafter owned or Controlled, directly or indirectly, by such Person, but such other Person shall be deemed to be a Subsidiary only so long as such ownership or Control exists; provided, however, that the term Subsidiary, when used in relation to a Party or any of its Affiliates, shall not include any JV or any of the JVs' Subsidiaries or any new joint venture entity (or any Subsidiary of any such new joint venture entity) created as a result of a new agreement between WD or any of its Subsidiaries, on one side and TMC or any of its Subsidiaries, on the other side, relating to the Collaboration (as defined in the Undertaking).

“TMC Group” means TMC, Bain Capital and all of their respective Affiliates.

“TMC Merger” means any merger of Pangea and TMC following consummation of the TMC Sale.

“TMC Transfer” means that certain transaction occurring on or about April 1, 2017, in which TSB transferred substantially all of the assets, rights and obligations of its memory business (the “Memory Business”), and its JV Shares to TMC.

“Transfer” means any transfer, distribution in kind, sale, assignment, conveyance, creation of any Lien, or other disposal or delivery, including by dividend, distribution, merger, business combination, split-off, spin-off, consolidation or otherwise, whether made directly or indirectly, voluntarily or involuntarily, absolutely or conditionally, or by operation of law or otherwise.

“Transferee” means a transferee of Equity Interests in any Investment Vehicle, TMC, Pangea, any entity Controlling TMC or Pangea or any Subsidiary thereof, whether pursuant to an issuance, Transfer or otherwise.

“TSB Transfer” means that certain transaction occurring on or about June 3, 2017 in which TMC transferred the JV Shares which it had acquired via the TMC Transfer back to TSB.

“WD Competitor CoC” means a Change of Control of WD or any WD Memory Business Owner that results in WD or such WD Memory Business Owner being Controlled by a Competitor (other than WD).

“WD Memory Business Owner” means a Memory Business Owner (as defined in the TSB and TMC Settlement Agreement) that is, immediately prior to a Change of Control of such Memory Business Owner, Controlled by WD or any of its Affiliates.

EXHIBIT A CERTAIN DEFINITIONS
EXHIBIT B PROCEEDINGS
SCHEDULE 1.1 CORRESPONDENCE

**** Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Western Digital Corporation
Computation of Ratio of Earnings to Fixed Charges

	Fiscal Year					Six months ended December 29, 2017
	2013	2014	2015	2016	2017	
<i>(in millions)</i>						
Computation of earnings:						
Income before provision for income taxes	\$ 1,222	\$ 1,752	\$ 1,577	\$ 153	\$ 769	\$ 1,484
Fixed charges	75	75	69	285	871	411
Undistributed equity in income from 50%-or-less-owned affiliates	—	—	—	(1)	(6)	(2)
Adjusted earnings	<u>\$ 1,297</u>	<u>\$ 1,827</u>	<u>\$ 1,646</u>	<u>\$ 437</u>	<u>\$ 1,634</u>	<u>\$ 1,893</u>
Computation of fixed charges:						
Interest expense	\$ 54	\$ 56	\$ 49	\$ 266	\$ 847	\$ 402
Interest relating to lease guarantee of 50%-or-less-owned affiliates	—	—	—	—	6	—
Estimated interest portion of operating lease expense ⁽¹⁾	21	19	20	19	18	9
Fixed charges	<u>\$ 75</u>	<u>\$ 75</u>	<u>\$ 69</u>	<u>\$ 285</u>	<u>\$ 871</u>	<u>\$ 411</u>
Ratio of earnings to fixed charges	17.3x	24.4x	23.9x	1.5x	1.9x	4.6x

⁽¹⁾ Interest is estimated at 33% of rental charges, which considers industry benchmarks and assumption of average debt service cost over the assumed life of the related property.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen D. Milligan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEPHEN D. MILLIGAN

Stephen D. Milligan
Chief Executive Officer

Dated: February 5, 2018

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark P. Long, certify that:

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

/s/ MARK P. LONG

Mark P. Long

President WD Capital, Chief Strategy Officer and Chief Financial Officer

Dated: February 5, 2018

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

Certification of Chief Executive Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 29, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEPHEN D. MILLIGAN

Stephen D. Milligan
Chief Executive Officer

Dated: February 5, 2018

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

Certification of Chief Financial Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 29, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARK P. LONG

Mark P. Long
President WD Capital, Chief Strategy Officer and Chief Financial Officer

Dated: February 5, 2018