



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

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**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 March 28, 2003

OR

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

For the transition period from            to

Commission file number 1-8703

**WESTERN DIGITAL CORPORATION**

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(Exact name of registrant as specified in its charter)

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

**20511 Lake Forest Drive**  
**Lake Forest, California**  
(Address of principal executive offices)

**33-0956711**  
(I.R.S. Employer  
Identification No.)

**92630**  
(Zip Code)

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

**<http://www.westerndigital.com>**  
(Registrant's Web Site)

N/A

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(Former name, former address and former fiscal year if changed since last report)

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

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

As of the close of business on April 25, 2003, 198,095,885 shares of common stock, par value \$.01 per share, were outstanding.

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## TABLE OF CONTENTS

### PART I. FINANCIAL INFORMATION

#### Item 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Item 4. CONTROLS AND PROCEDURES

### PART II. OTHER INFORMATION

#### Item 1. LEGAL PROCEEDINGS

#### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

CERTIFICATIONS

EXHIBIT INDEX

EXHIBIT 10.10

EXHIBIT 10.11

EXHIBIT 10.57

EXHIBIT 10.58

EXHIBIT 99.1

EXHIBIT 99.2

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**WESTERN DIGITAL CORPORATION**  
**INDEX**

	<u>PAGE NO.</u>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
Condensed Consolidated Statements of Income – Three Months and Nine Months Ended March 28, 2003 and March 29, 2002	3
Condensed Consolidated Balance Sheets - March 28, 2003 and June 28, 2002	4
Condensed Consolidated Statements of Cash Flows – Nine Months Ended March 28, 2003 and March 29, 2002	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	22
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	23
Item 6. Exhibits and Reports on Form 8-K	23
Signatures	24
Certifications	25

Western Digital Corporation (the “Company” or “Western Digital”) has a 52 or 53-week fiscal year and each fiscal month ends on the Friday nearest to the last day of the calendar month. Unless otherwise indicated, references herein to specific years and quarters are to the Company’s fiscal years and fiscal quarters, and references to financial information are on a consolidated basis.

The information in the Company’s website referenced herein is not incorporated by reference in this Quarterly Report on Form 10-Q.

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

WESTERN DIGITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts; unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002	MAR. 28, 2003	MAR. 29, 2002
Revenue, net	\$705,839	\$594,867	\$2,038,238	\$1,610,480
Cost of revenue	583,819	513,849	1,688,494	1,402,897
Gross margin	122,020	81,018	349,744	207,583
Operating expenses:				
Research and development	34,726	31,443	101,050	89,500
Selling, general and administrative	30,205	28,774	90,277	84,636
Total operating expenses	64,931	60,217	191,327	174,136
Operating income	57,089	20,801	158,417	33,447
Net interest and other (expense) income	(316)	(334)	(2,365)	1,908
Income from continuing operations before income taxes	56,773	20,467	156,052	35,355
Income tax (expense) benefit	(2,271)	1,624	(6,295)	1,624
Income from continuing operations	54,502	22,091	149,757	36,979
Discontinued operations	—	(2,893)	1,320	15,331
Net income	\$ 54,502	\$ 19,198	\$ 151,077	\$ 52,310
Basic income (loss) per common share:				
Income from continuing operations	\$ .28	\$ .12	\$ .77	\$ .20
Discontinued operations	—	(.02)	.01	.08
	\$ .28	\$ .10	\$ .78	\$ .28
Diluted income (loss) per common share:				
Income from continuing operations	\$ .26	\$ .11	\$ .74	\$ .19
Discontinued operations	—	(.01)	.00	.08
	\$ .26	\$ .10	\$ .74	\$ .27
Weighted average shares outstanding:				
Basic	196,258	190,091	194,149	188,139
Diluted	207,724	198,355	202,890	192,372

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

**WESTERN DIGITAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except par values; unaudited)**

	<u>MAR. 28,</u> <u>2003</u>	<u>JUN. 28,</u> <u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 347,060	\$ 223,728
Accounts receivable, net	195,738	218,832
Inventories	110,663	73,395
Other	13,374	11,554
	<u>666,835</u>	<u>527,509</u>
Property and equipment, net	117,162	107,520
Other, net	543	1,651
	<u>784,540</u>	<u>636,680</u>
Total assets	<u>\$ 784,540</u>	<u>\$ 636,680</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 348,332	\$ 302,998
Accrued expenses	132,108	103,474
Convertible debentures	—	86,204
	<u>480,440</u>	<u>492,676</u>
Other	28,016	41,142
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value; shares authorized: 5,000; shares outstanding: none	—	—
Common stock, \$.01 par value; shares authorized: 450,000; shares outstanding: 198,316 and 195,438, respectively	1,983	1,954
Additional paid-in capital	651,514	710,945
Accumulated deficit	(365,215)	(516,292)
Accumulated other comprehensive income	3,248	2,559
Treasury stock, at cost: 696 and 3,295 shares, respectively	(15,446)	(96,304)
	<u>276,084</u>	<u>102,862</u>
Total shareholders' equity	<u>276,084</u>	<u>102,862</u>
Total liabilities and shareholders' equity	<u>\$ 784,540</u>	<u>\$ 636,680</u>

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

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

	NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002
<b>Cash flows from operating activities:</b>		
Net income	\$151,077	\$ 52,310
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Discontinued operations	(1,320)	(15,331)
Depreciation and amortization	36,298	34,324
Non-cash interest expense	2,991	4,533
Other non-cash items, net	—	(2,391)
Changes in:		
Accounts receivable	23,094	(57,870)
Inventories	(37,268)	(15,608)
Other assets	(1,579)	(3,075)
Accounts payable	45,334	92,728
Accrued expenses	15,921	(16,674)
Other	1,988	(781)
Net cash provided by continuing operations	236,536	72,165
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(43,572)	(39,484)
Other investment activity	—	9,912
Net cash used for investing activities of continuing operations	(43,572)	(29,572)
<b>Cash flows from financing activities:</b>		
Issuance of common stock under employee plans	20,966	8,810
Debenture redemptions and extinguishments	(88,045)	(13,217)
Proceeds from minority investment in subsidiary	—	450
Net cash used for financing activities of continuing operations	(67,079)	(3,957)
Net cash (used for) provided by discontinued operations	(2,553)	20,269
Net increase in cash and cash equivalents	123,332	58,905
Cash and cash equivalents, beginning of period	223,728	167,582
Cash and cash equivalents, end of period	\$347,060	\$226,487
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for income taxes	\$ 2,646	\$ 1,843
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Common stock issued for extinguishment of convertible debentures	\$ 234	\$ 13,585

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

## WESTERN DIGITAL CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. Basis of Presentation

The accounting policies followed by the Company are set forth in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K as of and for the year ended June 28, 2002. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended June 28, 2002. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

Certain prior period amounts have been reclassified to conform to the current period presentation as a result of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145") and the termination of certain of the Company's new business ventures.

## 2. Supplemental Financial Statement Data (in thousands)

	MAR. 28, 2003		JUN. 28, 2002	
Inventories:				
Finished goods	\$ 80,658		\$54,483	
Work in process	17,088		9,523	
Production materials	12,917		9,389	
	<u>\$110,663</u>		<u>\$73,395</u>	
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002	MAR. 28, 2003	MAR. 29, 2002
Net Interest and Other (Expense) Income:				
Interest income	\$ 1,070	\$ 875	\$ 2,787	\$ 3,163
Interest and other expense	(1,386)	(2,019)	(5,152)	(6,271)
Gains on investments, net	—	810	—	4,289
Minority interest in losses of consolidated subsidiary	—	—	—	727
	<u>\$ (316)</u>	<u>\$ (334)</u>	<u>\$ (2,365)</u>	<u>\$ 1,908</u>

The Company records a provision for estimated warranty costs as products are sold to cover the cost of repair or replacement of the hard drive during the warranty period. This provision is based on estimated future returns within the warranty period and costs to repair, using historical field return rates by product type and current average repair costs. Changes in the warranty provision for the nine months ended March 28, 2003 were as follows (in thousands):

Balance at June 28, 2002	\$ 47,412
Costs incurred	(41,901)
Current period accruals	45,535
Balance at March 28, 2003	<u>\$ 51,046</u>



[Table of Contents](#)

## 3. Income per Share

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002	MAR. 28, 2003	MAR. 29, 2002
Income from continuing operations	\$ 54,502	\$ 22,091	\$149,757	\$ 36,979
Weighted average shares outstanding:				
Basic	196,258	190,091	194,149	188,139
Employee stock options and other	11,466	8,264	8,741	4,233
Diluted	207,724	198,355	202,890	192,372
Income per share from continuing operations:				
Basic	\$ .28	\$ .12	\$ .77	\$ .20
Diluted	\$ .26	\$ .11	\$ .74	\$ .19

For purposes of computing diluted income per share, antidilutive common share equivalents have been excluded from the calculation. These include employee stock options with an exercise price which exceeded the average fair market value of the common stock for the period and common shares issuable upon conversion of the 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures"). These antidilutive common share equivalents totaled 20.1 million and 24.4 million shares for the three months ended March 28, 2003 and March 29, 2002, respectively, and 24.1 million and 28.7 million shares for the nine months ended March 28, 2003 and March 29, 2002, respectively.

## 4. Common Stock and Convertible Debenture Transactions

During the nine months ended March 28, 2003, the Company issued approximately 2,064,000 shares of its common stock in connection with Employee Stock Purchase Plan ("ESPP") purchases and approximately 3,528,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of \$21.0 million. During the nine months ended March 29, 2002, the Company issued approximately 1,343,000 shares of its common stock in connection with ESPP purchases and approximately 1,204,000 shares of its common stock in connection with common stock option exercises, for aggregate cash proceeds of \$8.8 million.

During the nine months ended March 28, 2003, the Company issued approximately 50,000 shares of common stock and paid \$88.0 million in cash to redeem its remaining Debentures. The book value of Debentures redeemed was \$88.4 million, and the aggregate principal amount at maturity was \$192.9 million. The net gain from redemptions of the Debentures was not material.

## 5. Comprehensive Income

Comprehensive income includes net income as well as the components of other comprehensive income which include all revenue, expense, gain and loss items that are recorded as an element of shareholders' equity but are excluded from net income. The Company's other comprehensive income is comprised of unrealized gains on marketable securities categorized as "available for sale" under SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities". The components of comprehensive income for the three and nine months ended March 28, 2003 and March 29, 2002 were as follows (in thousands):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002	MAR. 28, 2003	MAR. 29, 2002
Net income	\$54,502	\$19,198	\$151,077	\$52,310
Other comprehensive income:				
Unrealized gain on available for sale investments, net	1,398	1,916	689	982
Comprehensive income	\$55,900	\$21,114	\$151,766	\$53,292

6. Stock Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations (“APB Opinion No. 25”) in accounting for its stock options (including shares issued under the Stock Option Plans and the ESPP, collectively called “Options”) and, accordingly, no compensation expense has been recognized for the Options in the consolidated financial statements. Pro forma information for interim financial statements regarding net income and income per share is required by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123” (“SFAS 148”). This information is required to be determined as if the Company had accounted for its Options granted subsequent to July 1, 1995, under the fair value method of SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”).

The fair value of Options granted during the nine months ended March 28, 2003 and March 29, 2002 has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	STOCK OPTION PLANS		ESPP PLAN	
	2003	2002	2003	2002
Option life (in years)	3.7	3.0	1.25	2.0
Risk-free interest rate	3.40%	3.37%	1.94%	2.90%
Stock price volatility	0.88	0.88	0.88	0.88
Dividend yield	—	—	—	—
Fair value	\$2.66	\$1.94	\$2.62	\$2.90

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including the expected stock price volatility and expected period until options are exercised. The pro forma impact of applying SFAS 123 in the three and nine months ended March 28, 2003 is not necessarily representative of future periods.

Had the Company determined compensation expense based on the Black-Scholes fair value model at the grant date for its Options under SFAS 123, the Company’s net income and net income per share would have been as indicated below (amounts in thousands except per share data):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 28, 2003	MAR. 29, 2002	MAR. 28, 2003	MAR. 29, 2002
<b>Net income</b>				
As reported	\$54,502	\$19,198	\$151,077	\$ 52,310
Stock-based employee compensation expense	(6,378)	(5,461)	(19,196)	(17,657)
Pro forma net income	\$48,124	\$13,737	\$131,881	\$ 34,653
<b>Basic income per share:</b>				
As reported	\$ .28	\$ .10	\$ .78	\$ .28
Pro forma	\$ .25	\$ .07	\$ .68	\$ .18
<b>Diluted income per share:</b>				
As reported	\$ .26	\$ .10	\$ .74	\$ .27
Pro forma	\$ .24	\$ .07	\$ .66	\$ .18

## Table of Contents

### 7. Business Segment and Discontinued Operations

The Company operates in one segment, the hard drive business.

During 2002, the Company terminated the operations of all new business ventures, including Connex, Inc. (“Connex”), SANavigator, Inc. (“SANavigator”), Keen Personal Media, Inc. (“Keen”) and other smaller businesses. In conjunction with these business terminations, substantially all of the operating assets of Connex were sold to Quantum Corporation in August 2001 for cash proceeds of \$11.0 million, and substantially all of the operating assets of SANavigator were sold to McData Corporation in September 2001 for cash proceeds of \$29.8 million. These transactions generated a one-time gain of \$24.5 million, net of costs incurred from the measurement date of July 1, 2001 through the end of the period to shutdown the businesses. Accordingly, the operating results of Connex, SANavigator and Keen, and the net gain recognized on the sale of substantially all of the assets of Connex and SANavigator for the periods reported, have been segregated from continuing operations and reported separately on the unaudited condensed consolidated statements of income as discontinued operations.

### 8. Legal Proceedings

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

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

On November 26, 2002, WDT and WDM filed a motion for summary adjudication as to Cirrus’ second and third causes of action. The parties fully briefed the motion which was scheduled to be heard on December 24, 2002. On December 24, 2002, the Court continued the summary judgment motion until February 4, 2003, and then, on February 4, 2003, further continued the motion until April 1, 2003, to allow Cirrus to conduct additional discovery. On December 3, 2002, Cirrus filed a motion for summary adjudication as to WDT and WDM’s first, second, third, fourth, fifth and seventh causes of action. The parties fully briefed the motion which was scheduled to be heard on December 31, 2002. On December 31, 2002, after hearing arguments from both sides, the Court granted Cirrus’ motion as to the first, second, fourth, fifth and seventh causes of action, and denied Cirrus’ motion as to the third cause of action. On January 30, 2003, Cirrus filed another motion for summary adjudication as to the third cause of action. The parties completed briefing on the motion and the motion was scheduled to be heard on April 15, 2003.

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

On April 22, 2003, Cirrus filed a demurrer to WDT's claims for promissory estoppel, intentional and fraudulent misrepresentation and negligent misrepresentation. The Court has scheduled a hearing on the demurrer for May 13, 2003. A potential loss, if any, cannot presently be reasonably estimated. The Company intends to prosecute this matter and defend the cross-complaint vigorously.

In the normal course of business, the Company is subject to other legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that any monetary liability or financial impact to the Company from these matters, individually and in the aggregate, beyond that provided at March 28, 2003, would not be material to the Company's financial condition. However, there can be no assurance with respect to such result and results could differ materially from those projected.

9. New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize a liability for the fair value, or market value, of the obligation undertaken in issuing a guarantee at the inception of the guarantee. The provisions of FIN 45 relating to liability recognition does not apply to certain obligations such as product warranties and guarantees accounted for as derivatives. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified subsequent to December 31, 2002. The disclosure requirements of FIN 45 are effective for interim or annual financial statement periods ending after December 15, 2002. The Company adopted the provisions of FIN 45 relating to footnote disclosure of warranty obligations during the quarter ended December 27, 2002. This information is included in Note 2 "Supplemental Financial Statement Data" of the Notes to Condensed Consolidated Financial Statements. The Company's adoption of the recognition and measurement provisions of FIN 45 had no impact on its consolidated financial position or results of operations.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Western Digital Corporation's (the "Company's" or "Western Digital's") Annual Report on Form 10-K as of and for the year ended June 28, 2002.

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

**Forward-Looking Statements**

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

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

**Results of Operations***Summary Comparison*

The following table sets forth, for the periods indicated, summary information from the Company's statements of income. This table excludes the results of discontinued operations (dollars in thousands):

	THREE MONTHS ENDED				NINE MONTHS ENDED			
	MAR. 28, 2003		MAR. 29, 2002		MAR. 28, 2003		MAR. 29, 2002	
	\$	%	\$	%	\$	%	\$	%
Revenue, net	705,839	100.0	594,867	100.0	2,038,238	100.0	1,610,480	100.0
Gross margin	122,020	17.3	81,018	13.6	349,744	17.2	207,583	12.9
Total operating expenses	64,931	9.2	60,217	10.1	191,327	9.4	174,136	10.8
Operating income	57,089	8.1	20,801	3.5	158,417	7.8	33,447	2.1
Income from continuing operations	54,502	7.7	22,091	3.7	149,757	7.3	36,979	2.3

*Net Revenue*

Net revenue was \$705.8 million for the three months ended March 28, 2003, an increase of 19%, or \$111.0 million, from the three months ended March 29, 2002. Total unit shipments increased to 10.3 million for the quarter as compared to 8.1 million for the corresponding period in the prior year as a result of the Company's improved competitive position and an increase in demand for hard drives in the personal computer ("PC") market. Average selling prices ("ASP's") decreased to \$68 per unit for the quarter from \$74 in the corresponding period in the prior year. Historically, ASP's in the desktop hard drive industry have generally declined annually in the 10-20% range. However, those price declines have moderated over the past few quarters given longer product life cycles, improved supply/demand management and fewer component cost reduction opportunities. Specifically, ASP's for the three months ended March 28, 2003 represent the fourth consecutive quarter of flat-to-higher ASP's.

Revenue by geographic region for the three months ended March 28, 2003 was 48% from the Americas, 31% from Europe and 21% from Asia compared to 52%, 33% and 15%, respectively, for the corresponding prior period.

Revenue by sales channel for the three months ended March 28, 2003 was 53% from original equipment manufacturers, 39% from distributors and 8% from the retail channel compared to 57%, 36% and 7%, respectively, for the corresponding prior period.

## [Table of Contents](#)

For the nine months ended March 28, 2003, net revenue was \$2,038.2 million, an increase of 27%, or \$427.8 million, from the nine months ended March 29, 2002. During this period, total unit shipments increased to 29.2 million from 21.1 million from the corresponding prior period while ASP's decreased to \$70 per unit from \$76.

### *Gross Margin*

For the three months ended March 28, 2003, gross margin percentage increased to 17.3% from 13.6% for the corresponding period of the prior year. For the nine months ended March 28, 2003, gross margin percentage increased to 17.2% from 12.9% for the corresponding period of the prior year. The increase in gross margin percentage over the prior year periods was primarily the result of a more moderate pricing environment, manufacturing efficiencies associated with higher unit volume and continuing cost reduction efforts.

### *Operating Expenses*

Total operating expenses, consisting of research and development ("R&D") and selling, general and administrative ("SG&A"), decreased to 9.2% of net revenue for the three months ended March 28, 2003 as compared to 10.1% of net revenue for the corresponding period of the prior year. For the nine months ended March 28, 2003, total operating expenses decreased to 9.4% of net revenue from 10.8% for the corresponding period of the prior year. The Company's operating expense structure is highly leveraged. Absolute dollar increases in operating expenses over the prior year are primarily due to higher pay-for-performance and retention plan expenses, resulting from improved Company performance.

R&D expense was \$34.7 million for the three months ended March 28, 2003, an increase of 10.4%, or \$3.3 million, from the three months ended March 29, 2002. R&D expense for the nine months ended March 28, 2003 was \$101.1 million, an increase of 12.9%, or \$11.6 million, from the corresponding period of the prior year. The increase in R&D expense from the corresponding periods of the prior year was primarily due to higher employee incentive payments resulting from improved operating results.

SG&A expense was \$30.2 million for the three months ended March 28, 2003, an increase of 5.0%, or \$1.4 million, from the three months ended March 29, 2002. SG&A expense for the nine months ended March 28, 2003 was \$90.3 million, an increase of 6.7%, or \$5.6 million, from the corresponding period of the prior year. The increase in SG&A expense from the corresponding periods of the prior year was due to higher employee incentive payments resulting from improved operating results and higher retention plan expenses.

### *Income Tax Provision*

Income tax provision was \$2.3 million and \$6.3 million for the three and nine months ended March 28, 2003, respectively. The increase in the income tax provision for the three and nine months ended March 28, 2003 is primarily related to an increase in earnings within certain tax jurisdictions. Differences between the effective tax rate estimated for 2003 of 4%, as compared to the U.S. federal statutory rate, are primarily due to earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with U.S. statutory rates.

### **Liquidity and Capital Resources**

The Company had cash and cash equivalents of \$347.1 million at March 28, 2003 and \$223.7 million at June 28, 2002. Net cash provided by continuing operations was \$236.5 million during the nine months ended March 28, 2003 as compared to net cash provided by continuing operations of \$72.2 million during the nine months ended March 29, 2002. This \$164.3 million improvement in cash provided by continuing operations consists of a \$115.6 million improvement in the Company's net income, net of non-cash items, and a \$48.7 million decrease in cash used to fund working capital requirements. These improvements are due to significantly better operating performance by the Company, including increased revenue and gross margin, improved cost management and efficient asset management.

The Company's working capital requirements depend upon the effective management of its cash conversion cycle. The cash conversion cycle, which represents the sum of the number of days sales outstanding ("DSO") and days inventory outstanding ("DIO") less days payable outstanding ("DPO"), was negative ten days for the nine months ended March 28, 2003, the same as the corresponding period of the prior year. The cash conversion cycle for the nine months ended March 28, 2003 consists of 30 DSO, 16 DIO less 56 DPO.

## Table of Contents

Uses of cash during the nine months ended March 28, 2003 included net capital expenditures of \$43.6 million, primarily to upgrade the Company's desktop hard drive production capabilities and for the normal replacement of existing assets, \$88.0 million for the extinguishment or redemption of its remaining 5.25% zero coupon convertible subordinated debentures due February 18, 2018 (the "Debentures") and \$2.6 million for discontinued operations. Other sources of cash during the period included \$21.0 million received in connection with stock option exercises and Employee Stock Purchase Plan purchases.

The Company has a senior credit facility that provides up to \$125 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation), matures on September 20, 2003 and is secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets (the "Senior Credit Facility"). At the option of the Company, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. The Senior Credit Facility requires the Company to maintain certain amounts of tangible net worth, prohibits the payment of cash dividends on common stock and contains a number of other covenants. As of March 28, 2003, there were no borrowings under the facility. However, the availability under the Senior Credit Facility has been reduced by \$25.2 million for an outstanding letter of credit (refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 8 "Legal Proceedings" included in this Quarterly Report on Form 10-Q).

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

### **Critical Accounting Policies**

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

#### *Revenue and Accounts Receivable*

In accordance with standard industry practice, the Company has agreements with resellers that provide limited price protection for inventories held by resellers at the time of published list price reductions. In addition, the Company may have agreements with resellers that provide for stock rotation on slow-moving items and other incentive programs. In accordance with current accounting standards, the Company recognizes revenue upon shipment or delivery to resellers and records a reduction to revenue for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. Adjustments are based on anticipated price decreases during the reseller holding period, estimated amounts to be reimbursed to qualifying customers as well as historical pricing information. If end-market demand for hard drives declines significantly, the Company may have to increase sell-through incentive payments to resellers, resulting in an increase in price protection allowances, which could adversely impact operating results.

The Company establishes an allowance for doubtful accounts by analyzing specific customer accounts and assessing its risk of loss based on insolvency, disputes or other collection issues. In addition, the Company routinely analyzes the different receivable aging categories and establishes reserves based on the length of time receivables are past due. If the financial condition of a significant customer deteriorates resulting in their inability to pay their accounts when due, an increase in our allowance for doubtful accounts would be required, which could negatively affect operating results.

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

## [Table of Contents](#)

### *Warranty*

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

### *Inventory*

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

The Company evaluates inventory balances for excess quantities and obsolescence on a regular basis by analyzing backlog, estimated demand, inventory on hand, sales levels and other information. The Company writes down inventory balances for excess and obsolete inventory based on the analysis. Unanticipated changes in technology or customer demand could result in a decrease in demand for one or more of our products, which may require an increase in inventory write-downs, which could negatively affect operating results.

### *Litigation and Other Contingencies*

The Company applies Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, the Company accrues loss contingencies when management, in consultation with its legal advisors, concludes that a loss is probable and is able to be reasonably estimated (refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 8 "Legal Proceedings" included in this Quarterly Report on Form 10-Q).

### *Deferred Tax Assets*

The Company's deferred tax assets, which consist primarily of net operating loss and tax credit carryforwards, are fully reserved due to management's determination that it is "more likely than not" that these assets will not be realized. This determination is based on the weight of available evidence, the most significant of which is the Company's loss history in the related tax jurisdictions. Should this determination change in the future, some amount of deferred tax assets could be recognized, resulting in a tax benefit or a reduction of future tax expense.

### **New Accounting Pronouncements**

Refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 9 "New Accounting Pronouncements" included in this Quarterly Report on Form 10-Q.



## **Risk Factors That May Affect Future Results**

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

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

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

- develop new products with features required by our customers,
- consistently maintain or improve our time-to-market performance with our new products,
- produce these products in sufficient volume within our rapid product cycle,
- qualify these products with key customers on a timely basis by meeting our customers' performance and quality specifications,
- achieve acceptable manufacturing yields and costs with these products, or
- consistently meet stated quality requirements on delivered products,

our operating results could be adversely affected.

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

New products require higher areal densities (the gigabyte of storage per disk) than previous product generations, posing formidable technical challenges. Higher areal densities require fewer heads and disks to achieve a given drive capacity, which means that existing head technology must be improved or new technology developed to accommodate more data on a single disk. In addition, our introduction of new products during a technology transition increases the likelihood of unexpected quality concerns. Our failure to bring high quality new products to market on time and at acceptable costs could put us at a competitive disadvantage to companies that achieve these results.

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

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

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

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

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

Short product life cycles and continuously changing products require us to regularly engage in new product qualification with our customers. To be considered for qualification we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, any failure or delay in the qualification process can result in our losing sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited

## [Table of Contents](#)

number of high volume computer manufacturers, most of which continue to consolidate their share of the PC market. If product life cycles continue to be extended due to a decrease in the rate of areal density growth, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could harm our competitive position. These risks are increased because we expect cost improvements and competitive pressures to result in declining sales and gross margins on our current generation products.

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

Longer product life cycles have resulted from a decrease in the rate of areal density growth in the past twelve months. If longer product life cycles continue, we may need to develop new technologies or programs, such as system-on-a-chip, to reduce our costs on any particular product in order to maintain competitive pricing for such product. This may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results.

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

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

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

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

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

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

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or attempting to gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. For example, during the first quarter of 2000, the Company lost market share as a result of a product recall. Similar losses in market share could adversely affect our operating results.

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

Demand for our hard drives depends on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market has experienced periods of excess capacity, which has led to intense price competition. During calendar year 2001 and the first half of calendar year 2002, the industry experienced weak PC demand in the U.S. and other markets due in part to general economic conditions worldwide. If intense price competition occurs as a result of weak demand, we may be forced to lower prices sooner and more than expected, which could result in lower revenues and gross margins.

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

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems. According to data released by International Data Corporation Tracker in December 2002, systems priced below \$599 currently

## Table of Contents

comprise the fastest growing segment of the consumer market for desktop computers. Although we were late to market with a value line hard drive to serve the low-cost PC market, we are now offering such value line products at prices that we view as competitive. However, if we are not able to continue to offer a competitively priced value line hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

The PC market is fragmenting into a variety of computing devices and products. Some of these products, such as Internet appliances, may not contain a hard drive. On the other hand, many industry analysts expect, as do we, that as broadcasting and communications are increasingly converted to digital technology from the older, analog technology, the technology of computers, consumer electronics and communication devices will converge, and hard drives will be found in many consumer products other than computers. For the quarter ended March 28, 2003, approximately 3% of our unit sales were for consumer products other than computers, primarily gaming devices. If we are not successful in using our hard drive technology and expertise to develop new products for these emerging markets, it will likely harm our operating results.

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

The use of hard disk drives in the game console market is a fairly recent trend. Due to the price competitive nature of the hard disk drive industry, with selling prices of PC's being substantially higher than game consoles, game manufacturers may not have the ability to either incorporate or continue to incorporate hard disk drives into their overall architecture. In addition, current price reduction demands from either current or future game console customers may not make hard disk drive integration an attractive market for us or other hard drive manufacturers. Also, the success of specific game consoles such as Microsoft's Xbox™, which uses a hard disk drive for game use, remains uncertain.

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

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

*We depend on our key personnel and skilled employees.*

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

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

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

A majority of our revenue comes from a few customers. For example, during the nine months ended March 28, 2003, sales to our top 10 customers accounted for approximately 52% of revenue. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs,

## Table of Contents

our operating results would likely be harmed. For example, this occurred with our enterprise hard drive product line early in the third quarter of 2000 and is one of the factors which led to our decision to exit the enterprise hard drive market.

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

Because we do not manufacture any of the basic components in our hard drives, an extended shortage of required components or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could harm us more severely than our competitors, some of whom manufacture certain of the components for their hard drives, and could significantly harm our operating results. A number of the components used by us are available from only a single or limited number of qualified outside suppliers, and there is continued attrition and consolidation in our supplier base. If a component is in short supply, or a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. In addition, if a component becomes unavailable, we could suffer significant loss of revenue. For example, we lost revenue in September 1999 when we had to shut down production of a product line for approximately two weeks as a result of a faulty power driver chip that was sole-sourced from a third party supplier.

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

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

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

Under our business model, we do not manufacture any of the component parts used in our hard drives. As a result, the success of our products depends on our ability to gain access to and integrate parts that are "best in class" from reliable component suppliers. To do so we must effectively manage our relationships with our strategic component suppliers. We must also effectively integrate different products from a variety of suppliers, each of which employs variations on technology which can impact, for example, feasible combinations of heads and media components. We are currently engaged in litigation with Cirrus, a supplier who previously was the sole source of read channel chips for our hard drives. As a result of the disputes that gave rise to the litigation, our business operations were at risk until another supplier's read channel chips could be designed into our products. Similar disputes with other strategic component suppliers could adversely affect our operating results.

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

The majority of our manufacturing volume comes from one facility in Malaysia. During 2002, we acquired a second, smaller manufacturing facility in Thailand. A fire, flood, earthquake or other disaster, condition or event that adversely affects either our Malaysia or Thailand facility or ability to manufacture could result in a loss of sales and revenue and harm our operating results.

*Terrorist attacks may adversely affect our business and operating results.*

The terrorist attacks on the United States on September 11, 2001, the United States-led military response to counter terrorism and the continued threat of terrorist activity and other acts of war or hostility have created uncertainty in the financial and insurance markets and have significantly increased the political, economic and social instability in some of the geographic areas in which the Company operates. Further acts of terrorism, either domestically or abroad, could create further uncertainties and instability. To the

## [Table of Contents](#)

extent this results in disruption or delays of our manufacturing capabilities or shipments of our products, our business, operating results and financial condition could be adversely affected.

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

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

- obtaining requisite United States and foreign governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest;
- transportation delays or higher freight rates;
- labor problems;
- trade restrictions or higher tariffs;
- exchange, currency and tax controls and reallocations;
- increasing labor and overhead costs; and
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

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

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

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

We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. In addition, no assurance can be given that in a particular case a license will be offered or that the offered terms will be acceptable to us. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would likely increase our costs and harm our operating results.

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

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

## Table of Contents

We rely upon employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which might harm our operating results.

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

We generally warrant our products for one to five years. The standard warranties used by us contain limits on damages and exclusions of liability for consequential damages and for negligent or improper use of the products. We record an accrual for estimated warranty costs at the time revenue is recognized. We may incur additional operating expenses if our warranty provision does not reflect the actual cost of resolving issues related to defects in our products. If these additional expenses are significant, it could adversely affect our business, financial condition and results of operations.

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

We often book and ship a high percentage (at times in excess of 50%) of our total quarterly sales in the third month of the quarter, which makes it difficult for us to forecast our financial results prior to the end of the quarter. In addition, our quarterly projections and results may be subject to significant fluctuations as a result of a number of other factors including:

- the timing of orders from and shipment of products to major customers;
- our product mix;
- changes in the prices of our products;
- manufacturing delays or interruptions;
- acceptance by customers of competing products in lieu of our products;
- variations in the cost of components for our products;
- limited access to components that we obtain from a single or a limited number of suppliers, such as Komag and IBM;
- competition and consolidation in the data storage industry; and
- seasonal and other fluctuations in demand for PC's often due to technological advances.

If we do not forecast total quarterly demand accurately, it can have a material adverse effect on our quarterly results.

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

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

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

## Table of Contents

*The market price of our common stock is volatile.*

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

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

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

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

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

Due to the risks described herein, in the future we may be unable to maintain adequate financial resources for capital expenditures, expansion or acquisition activity, working capital and research and development. We have a credit facility, which matures on September 20, 2003. If we decide to increase or accelerate our capital expenditures or research and development efforts, or if results of operations do not meet our expectations, we could require additional debt or equity financing. However, we cannot ensure that additional financing will be available to us or available on acceptable terms. An equity financing could also be dilutive to our existing stockholders.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Disclosure About Foreign Currency Risk**

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

## Table of Contents

As of March 28, 2003, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except weighted average contract rate):

	U.S. DOLLAR EQUIVALENT AMOUNT	WEIGHTED AVERAGE CONTRACT RATE
<b>FOREIGN CURRENCY FORWARD CONTRACTS:</b>		
Euro	\$ 1.6	1.08
British Pound Sterling	\$ 2.0	1.56
Thai Baht	\$ 31.5	42.97

During the three and nine months ended March 28, 2003 and March 29, 2002, respectively, total realized transaction and forward exchange contract currency gains and losses were not material to the condensed consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates would materially affect the Company's condensed consolidated financial statements.

### **Disclosure About Other Market Risks**

#### *Fixed Interest Rate Risk*

During the three months ended March 28, 2003, the Company redeemed its remaining Debentures outstanding with an aggregate of \$160.3 million in principal amount at maturity for cash consideration of \$73.7 million.

#### *Variable Interest Rate Risk*

At the option of the Company, borrowings under the Senior Credit Facility would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin determined by the borrowing base. This is the only Company borrowing facility which does not have a fixed rate of interest. At March 28, 2003, there were no borrowings outstanding under the Senior Credit Facility.

#### *Fair Value Risk*

The Company owns approximately 1.0 million shares of Vixel Corporation common stock (the "Vixel Stock"). As of March 28, 2003, the market value of the Vixel Stock was approximately \$3.2 million. Changes in the market value of the Vixel Stock are recorded as unrealized gains or losses in other comprehensive income (shareholders' equity). As of March 28, 2003, a \$3.2 million total accumulated unrealized gain has been recorded in accumulated other comprehensive income related to the Vixel Stock. Due to market fluctuations, a decline in the Vixel Stock's fair market value could occur in future periods. If the Company sells any portion of the Vixel Stock, the related unrealized gain on the date of sale will become realized and reflected as a gain in the Company's statement of income.

### **Item 4. CONTROLS AND PROCEDURES**

- (a) Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.
- (b) There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.



**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 8 “Legal Proceedings” included in this Quarterly Report on Form 10-Q which is hereby incorporated by reference. Reference is also made to Part II, Item 1, “Legal Proceedings”, in our Quarterly Reports on Form 10-Q for the quarters ended September 27 and December 27, 2002, for previous descriptions of these matters.

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) **Exhibits:**

- 3.1† Amended and Restated Certificate of Incorporation of the Company, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001.
- 3.2† Amended and Restated By-laws of the Company, adopted as of April 6, 2001.
- 10.10\* Amended and Restated Deferred Compensation Plan, effective March 28, 2003.
- 10.11\* Amended and Restated Executive Bonus Plan, effective March 28, 2003.
- 10.57\* Western Digital Corporation Non-Employee Director Restricted Stock Unit Plan, effective March 28, 2003.
- 10.58§ Supply Agreement for the Fabrication and Purchase of Semiconductor Products, dated June 13, 2002, among Marvell Semiconductor, Inc., Marvell Asia Pte. Ltd. and Western Digital Technologies, Inc.
- 99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) **Reports on form 8-K:**

On February 18, 2003, the Company filed a current report on Form 8-K to announce the results of a tender offer to purchase the Company’s outstanding zero coupon convertible subordinated debentures due February 18, 2018.

On March 3, 2003, the Company filed a current report on Form 8-K to provide Regulation FD disclosure in connection with investor presentations delivered by officials of the Company that included an update on conditions in the hard drive industry.

On March 18, 2003, the Company filed a current report on Form 8-K to announce that the Company elected to redeem all the Company’s outstanding zero coupon convertible subordinated debentures on April 17, 2003.

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† Incorporated by reference to the Company’s Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 6, 2001.

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

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN DIGITAL CORPORATION  
Registrant

/s/ Scott Mercer

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D. Scott Mercer  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Joseph R. Carrillo

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

Date: May 9, 2003

**CERTIFICATIONS**

**Certification of Chief Executive Officer**

I, Matthew E. Massengill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 9, 2003

/s/ MATTHEW E. MASSENGILL

\_\_\_\_\_  
Matthew E. Massengill  
*Chief Executive Officer*

**Certification of Chief Financial Officer**

I, D. Scott Mercer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 9, 2003

/s/ SCOTT MERCER

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D. Scott Mercer  
*Chief Financial Officer*

**EXHIBIT INDEX**

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

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

AMENDED AND RESTATED

EFFECTIVE MARCH 28, 2003

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TABLE OF CONTENTS

	PAGE
	----
Purpose.....	1
ARTICLE 1    Definitions.....	1
ARTICLE 2    Selection, Enrollment, Eligibility.....	8
2.1    Selection by Committee.....	8
2.2    Enrollment Requirements.....	8
2.3    Eligibility; Commencement of Participation.....	9
2.4    Termination of Participation and/or Deferrals.....	9
ARTICLE 3    Deferral Commitments/Company Matching/Crediting Taxes.....	10
3.1    Minimum Deferrals.....	10
3.2    Maximum Deferral.....	10
3.3    Election to Defer; Effect of Election Form.....	11
3.4    Withholding of Annual Deferral Amounts.....	11
3.5    Annual Company Contribution Amount.....	12
3.6    Investment of Trust Assets.....	12
3.7    Vesting.....	12
3.8    Crediting/Debiting of Account Balances.....	13
3.9    FICA and Other Taxes.....	15
3.10    Distributions.....	16
ARTICLE 4    Short-Term Payout; Unforeseeable Financial Emergencies; Withdrawal Election.....	16
4.1    Short-Term Payout.....	16
4.2    Other Benefits Take Precedence Over Short-Term.....	16
4.3    Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.....	17
4.4    Withdrawal Election.....	17
ARTICLE 5    Retirement Benefit.....	18
5.1    Retirement Benefit.....	18
5.2    Payment of Retirement Benefit.....	18
5.3    Death Prior to Completion of Retirement Benefit.....	18
ARTICLE 6    Pre-Retirement Survivor Benefit.....	18

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

6.1	Pre-Retirement Survivor Benefit.....	18
6.2	Payment of Pre-Retirement Survivor Benefit.....	18
ARTICLE 7	Termination Benefit.....	19
7.1	Termination Benefit.....	19
7.2	Payment of Termination Benefit.....	19
ARTICLE 8	Disability Waiver and Benefit.....	19
8.1	Disability Waiver.....	19
8.2	Continued Eligibility; Disability Benefit.....	20
ARTICLE 9	Beneficiary Designation.....	20
9.1	Beneficiary.....	20
9.2	Beneficiary Designation; Change; Spousal Consent.....	20
9.3	Acknowledgement.....	21
9.4	No Beneficiary Designation.....	21
9.5	Doubt as to Beneficiary.....	21
9.6	Discharge of Obligations.....	21
ARTICLE 10	Leave of Absence.....	21
10.1	Paid Leave of Absence.....	21
10.2	Unpaid Leave of Absence.....	21
ARTICLE 11	Termination, Amendment or Modification.....	22
11.1	Termination.....	22
11.2	Amendment.....	22
11.3	Plan Agreement.....	23
11.4	Effect of Payment.....	24
ARTICLE 12	Administration.....	24
12.1	Committee Duties.....	24
12.2	Agents.....	24
12.3	Binding Effect of Decisions.....	24
12.4	Indemnity of Committee.....	24
12.5	Employer Information.....	24
ARTICLE 13	Other Benefits and Agreements.....	25
13.1	Coordination with Other Benefits.....	25



ARTICLE 14	Claims Procedures.....	25
14.1	Presentation of Claim.....	25
14.2	Notification of Decision.....	25
14.3	Review of a Denied Claim.....	26
14.4	Decision on Review.....	26
14.5	Legal Action.....	26
ARTICLE 15	Trust.....	26
15.1	Establishment of the Trust.....	26
15.2	Interrelationship of the Plan and the Trust.....	27
15.3	Distributions From the Trust.....	27
ARTICLE 16	Miscellaneous.....	27
16.1	Status of Plan.....	27
16.2	Unsecured General Creditor.....	27
16.3	Employer's Liability.....	27
16.4	Nonassignability.....	27
16.5	Not a Contract of Employment.....	28
16.6	Furnishing Information.....	28
16.7	Terms.....	28
16.8	Captions.....	28
16.9	Governing Law.....	28
16.10	Notice.....	28
16.11	Successors.....	29
16.12	Spouse's Interest.....	29
16.13	Validity.....	29
16.14	Incompetent.....	29
16.15	Court Order.....	29
16.16	Distribution in the Event of Taxation.....	30
16.17	Insurance.....	30
16.18	Legal Fees To Enforce Rights After Change in Control.....	30

WESTERN DIGITAL CORPORATION

DEFERRED COMPENSATION PLAN

Amended and Restated

Effective March 28, 2003

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Western Digital Corporation, a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA. The Plan was originally adopted effective May 16, 1994, previously amended and restated effective each of January 9, 1997, January 1, 1998, August 1, 2001, and July 1, 2002, and is hereby amended and restated again effective March 28, 2003.

ARTICLE 1  
DEFINITIONS

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

- 1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance and (ii) the Company Contribution Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any incentive or bonus plan including without limitation the Management Incentive Compensation Plan, Profit Sharing Plan (Cash Element), Long-Term Incentive Plan, Variable Incentive Plan, Incentive Compensation Plan, Sales and Marketing Incentive Plan or the Executive Retention Plan. Notwithstanding the foregoing, Annual Bonus shall also include amounts otherwise payable during a calendar year under a Long-Term Retention Agreement.

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

- 1.3 "Annual Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.4 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary, Annual Bonus and Directors Fees that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.
- 1.5 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: The vested Account Balance of the Participant shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year Annual Installment Method, the first payment shall be 1/10 of the vested Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the vested Account Balance, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.
- 1.6 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.7 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

- 1.8 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.9 "Board" shall mean the board of directors of the Company.
- 1.10 "Change in Control" shall mean the first to occur of any of the following events:
- (a) Any person (other than the Company or any subsidiary thereof or any employee benefit plan of the Company or any subsidiary thereof, or any underwriter in connection with a firm commitment public offering of the Company's common stock), alone or together with its affiliates and associates, including any group of Persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act, becomes the beneficial owner (as such term is defined in Rule 13d-3 of the Exchange Act, except that a person shall also be deemed the beneficial owner of all securities which such person may have a right to acquire, whether or not such right is presently exercisable), directly or indirectly, of thirty-three and one-third percent or more of (i) the then-outstanding shares of the Company's common stock or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then outstanding voting securities;
  - (b) A change, during any period of two consecutive years, of a majority of the Board of the Company as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the effective date of this Plan and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);
  - (c) Consummation of any merger, consolidation, reorganization or other extraordinary transactions (or series of related transactions) involving the Company which results in the stockholders of the Company having power to vote in the ordinary election of directors immediately prior to such transaction (or series of related transactions) failing to beneficially own at least a majority of the securities of the Company having the power to vote in the ordinary election of directors which are outstanding after giving effect to such transaction (or series of related transactions); or
  - (d) The stockholders of the Company approve a plan of complete liquidation of the Company or the sale of substantially all of the assets of the Company; or

(e) Substantially all of the assets of the Company are sold or otherwise transferred to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which the Company is a member.

- 1.11 "Claimant" shall have the meaning set forth in Section 14.1.
- 1.12 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.13 "Committee" shall mean the committee described in Article 12.
- 1.14 "Company" shall mean Western Digital Corporation, a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.
- 1.15 "Company Common Stock" shall mean authorized and unissued shares or treasury shares of the Company's common stock.
- 1.16 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.
- 1.17 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.8 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this

Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

- 1.18 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.19 "Director" shall mean any member of the board of directors of any Employer.
- 1.20 "Directors Fees" shall mean, with respect to a Plan Year, the annual fees paid by any Employer during the Plan Year, including retainer fees and meetings fees, as compensation for serving on the board of directors, and shall include Directors Fees (Stock Element), and after March 28, 2003, shall include Directors Fees (RSU). For purposes hereof Directors Fees (RSU) shall be deemed paid in the Plan Year in which such units vest.
- 1.21 "Directors Fees (RSU)" shall mean that portion of Directors Fees paid in cash upon the vesting of stock units granted to non-Employee Directors under the terms of the Directors Restricted Stock Unit Plan.
- 1.22 "Directors Fees (Stock Element)" shall mean that portion of Directors Fees paid in the form of shares of Company Common Stock and granted to non-Employee Directors on a mandatory or elective basis under the terms of the Stock-For-Fees Plan after January 8, 1997.
- 1.23 "Directors Restricted Stock Unit Plan" shall mean the Western Digital Non-Employee Directors Restricted Stock Unit Plan, originally adopted on March 28, 2003, as the same may be amended from time to time.
- 1.24 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.
- 1.25 "Disability Benefit" shall mean the benefit set forth in Article 8.

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

- 1.26 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.27 "Employee" shall mean a person who is an employee of any Employer.
- 1.28 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.
- 1.29 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.30 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.
- 1.31 "Executive Retention Plan" shall mean the Western Digital Executive Retention Plan, as the same may be amended from time to time.
- 1.32 "First Plan Year" shall mean the period beginning May 16, 1994 and ending December 31, 1994.
- 1.33 "Long-Term Incentive Plan" shall mean the Western Digital Corporation Long-Term Incentive Plan, as the same may be amended from time to time.
- 1.34 "Long-Term Retention Agreement" shall mean the one or more long-term retention agreements entered into between an Employee and the Company in or about December, 2002.
- 1.35 "Management Incentive Plan" shall mean the Western Digital Corporation Management Incentive Plan, as the same may be amended from time to time.
- 1.36 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.
- 1.37 "Plan" shall mean the Western Digital Corporation Deferred Compensation Plan, originally adopted effective May 16, 1994, previously amended and restated in its entirety effective

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

January 9, 1997, January 1, 1998, August 1, 2001, and July 1, 2002, and amended and restated in its entirety effective March 28, 2003, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

- 1.38 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.
- 1.39 "Plan Year" shall, except for the First Plan Year, mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.40 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.
- 1.41 "Profit Sharing Plan (Cash Element)" shall mean the portion of the Western Digital Corporation Profit Sharing Plan which, in accordance with its terms, pays benefits in cash.
- 1.42 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability, on or after the attainment of age fifty-five (55); and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the later of (a) the attainment of age seventy (70), or (b) in the sole discretion of the Committee, an age later than age seventy (70). If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least three years prior to Retirement and in accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee. In this regard, a Participant shall be deemed to cease being employed by an Employer if and when the Employer employing such Participant ceases to be a majority owned subsidiary of the Company and the Board provides that such event shall be treated as a cessation of employment by all Employers.
- 1.43 "Retirement Benefit" shall mean the benefit set forth in Article 5.
- 1.44 "Short-Term Payout" shall mean the payout set forth in Section 4.1.



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

ARTICLE 2  
SELECTION, ENROLLMENT, ELIGIBILITY

- 2.1 SELECTION BY COMMITTEE. Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.
- 2.2 ENROLLMENT REQUIREMENTS. As a condition to participation, for the First Plan Year, each selected Employee or Director shall complete, execute and return to the Committee any time prior to May 16, 1994, a Plan Agreement, an Election Form and a Beneficiary Designation Form. Individuals initially selected to participate after May 16, 1994 may

commence participation by completing, executing and returning to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days of selection. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 ELIGIBILITY; COMMENCEMENT OF PARTICIPATION. Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on May 16, 1994, or, in the case of those selected for participation after that date, the May 1, or January 1 immediately following the date in which the Employee or Director completes all enrollment requirements, provided that a Director who is elected or appointed other than at an annual stockholders meeting may commence participation on the date he or she joins the Board, subject to new elections for each succeeding Plan Year pursuant to Section 3.3. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 TERMINATION OF PARTICIPATION AND/OR DEFERRALS. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then vested Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3

DEFERRAL COMMITMENTS/COMPANY CONTRIBUTION/CREDITING/TAXES

3.1 MINIMUM DEFERRALS.

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

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

If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero. The Committee may, (a) in the case of an Annual Bonus, prescribe that the portion, if any, attributable to amounts otherwise payable under a Long-Term Retention Agreement, the Long Term Incentive Plan or the Executive Retention Plan be subject to a separate deferral election; and (b) in the case of Directors Fees prescribe that the portion, if any, attributable to amounts otherwise payable under the Directors Restricted Stock Unit Plan be subject to a separate deferral election, in each case, with respect to the Minimum Amount that may be deferred and/or the timing of the deferral election.

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

3.2 MAXIMUM DEFERRAL.

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

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

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

### 3.3 ELECTION TO DEFER; EFFECT OF ELECTION FORM.

- (a) **FIRST PLAN YEAR.** In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.
- (b) **SUBSEQUENT PLAN YEARS.** For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form; provided that any deferral election in respect of Directors Fees for the 1997 Plan Year may be made on or before January 31, 1997, and, if separate deferral terms are set by the Committee pursuant to Section 3.1(a), elections with respect to amounts payable under Long-Term Retention Agreements, the Long Term Incentive Plan, the Executive Retention Plan or the Directors Restricted Stock Unit Plan, as applicable, will be as prescribed by the Committee. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year. Notwithstanding anything herein to the contrary, if any grant under the Directors Restricted Stock Unit Plan vests, pursuant to the terms of such plan, prior to four years after the date of grant, any election and Election Form with respect to such grant shall be disregarded.

### 3.4 WITHHOLDING OF ANNUAL DEFERRAL AMOUNTS. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

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

3.5 ANNUAL COMPANY CONTRIBUTION AMOUNT. For each Plan Year, the Board, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Annual Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. The Annual Company Contribution Amount, if any, shall be credited as of the last day of the Plan Year. If a Participant is not employed by an Employer as of the last day of a Plan Year other than by reason of his or her Retirement or death while employed, the Annual Company Contribution Amount for that Plan Year shall be zero. Notwithstanding the foregoing, the Company shall credit to the Account Balances of Participants who are non-employee Directors an Annual Company Contribution Amount for the Plan Year in which the applicable deferral is made, the premium awarded under Section 7(b) of the Stock-For-Fees Plan (the "Stock Premium Award"), and the premium awarded under Section 7(c) of the Stock-For-Fees Plan (the "Cash Premium Award," and collectively with the Stock Premium Award, "Premium Awards"), which amount shall be credited at such times as the Company shall determine.

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

3.7 VESTING.

- (a) A Participant shall at all times be 100% vested in his or her Deferral Account, except that, subject to Section 3.7(d), below, amounts attributable to any Long-Term Retention Agreement shall be subject to forfeiture in accordance with the terms of such agreement.
- (b) Except as otherwise provided in this Section 3.7, a Participant shall be vested in his or her Company Contribution Account in accordance with the provisions governing employer contributions under the Company's qualified 401(k) plan.

- (c) A Participant shall at all times be 100% vested in the portion of his or her Deferral Account attributable to the Premium Award(s).
- (d) Notwithstanding anything to the contrary contained in this Section 3.7, in the event of his or her Retirement, Disability or a Change in Control, a Participant's Deferral Account and Company Contribution Account shall immediately become 100% vested (if it is not already vested in accordance with this Section 3.7).

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

- (a) ELECTION OF MEASUREMENT FUNDS. Except as otherwise provided in Section 3.8 (d) or Section 3.8(e) below, a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.8(c) below) to be used to determine the additional amounts to be credited to his or her Account Balance for the first day thereof in which the Participant commences participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Except as otherwise provided in Section 3.8(d) or Section 3.8(e) below, commencing with the first day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, no later than the prior business day, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund; provided, however, that a Participant may make no more than two (2) such elections each Plan Year. If an election is made in accordance with the previous sentence, it shall apply to the next day and continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.
- (b) PROPORTIONATE ALLOCATION. In making any election described in Section 3.8(a) above, the Participant shall specify on the Election Form, in increments of five percentage points (5%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in

that Measurement Fund with that portion of his or her Account Balance and Annual Deferral Amount).

- (c) MEASUREMENT FUNDS. Except as otherwise provided in Section 3.8(d) or Section 3.8(e) below, for the purpose of crediting additional amounts to his or her Account Balance, the Participant may elect one or more measurement funds, based on certain mutual funds, established by the Committee for such purpose (the "Measurement Funds"). The Measurement Funds shall include a "Declared Rate Fund" (described as a fund which is credited with interest at a fixed rate declared as an annual rate for each Plan Year by the Company prior to the beginning of the Plan Year).

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

- (d) MINIMUM PERCENTAGE FOR DECLARED RATE MEASUREMENT FUND. Notwithstanding any provision of this Plan, other than Section 3.8(e) below, that may be construed to the contrary, effective January 1, 1998, a Participant's Account Balance as of such date shall be allocated to the Declared Rate Measurement Fund. Except as otherwise provided in Section 3.8(e) below, effective January 2, 1998, at all times during a Plan Year, a Participant must allocate a minimum percentage of his or her existing Account Balance and Annual Deferral Amount to the Declared Rate Measurement Fund (the "Minimum Percentage"). The Minimum Percentage for a Plan Year (i) must be fifty percent (50%) for the 1998 Plan Year, (ii) must be determined by the Committee, in its sole discretion, and announced prior to the beginning of any other Plan Year, (iii) may be higher or lower than the Minimum Percentage for any other Plan Year and (iv) may be zero for any other Plan Year.
- (e) COMPANY STOCK MEASUREMENT FUND FOR DIRECTORS FEES (STOCK ELEMENT). Notwithstanding any provision of this Plan that may be construed to the contrary, the portion of a Participant's Deferral Account balance attributable to his or her deferral of Directors Fees (Stock Element) and the portion of a Participant's Company Contribution Account balance attributable to the Stock Premium Award(s), as that term is defined in Section 3.5 above, must be (i) deemed invested at all times prior to distribution in the Company Stock Measurement Fund and (ii) distributed, in the form of Company Common Stock, as a lump sum at the time distribution to the Participant or his or her Beneficiary(ies) is to commence. For purposes of this Section 3.8(e), the Company Stock Measurement Fund is described

as a fund which shall be credited or debited with investment results corresponding to the total return of Company Common Stock.

- (f) CREDITING OR DEBITING METHOD. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar date, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any calendar date were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar date, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such calendar date, no earlier than three business days prior to the distribution, at the closing price on such date.
- (g) NO ACTUAL INVESTMENT. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

### 3.9 FICA AND OTHER TAXES.

- (a) ANNUAL DEFERRAL AMOUNTS. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall



withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.9.

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

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

#### ARTICLE 4

##### SHORT-TERM PAYOUT; UNFORESEEABLE FINANCIAL EMERGENCIES; WITHDRAWAL ELECTION

- 4.1 SHORT-TERM PAYOUT. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.9 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid within 60 days after the first day of any Plan Year designated by the Participant that is at least three Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. Notwithstanding the foregoing, the Participant may irrevocably elect to defer the distribution of a Short-Term Payout to the first 60 days of another Plan Year designated by the Participant that is at least two Plan Years after the Plan Year in which such Short-Term Payout would otherwise be paid, provided such election is made no later than the first day of the Plan Year immediately preceding the Plan Year in which the Short-Term Payout would otherwise be paid.
- 4.2 OTHER BENEFITS TAKE PRECEDENCE OVER SHORT-TERM. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or

debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

- 4.3 WITHDRAWAL PAYOUT/SUSPENSIONS FOR UNFORESEEABLE FINANCIAL EMERGENCIES. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's vested Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.
- 4.4 WITHDRAWAL ELECTION. A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her vested Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, Disability, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Retirement, Disability or death, a Participant's Withdrawal Amount shall be his or her Account Balance calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within 60 days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan in the future. The payment of this Withdrawal Amount shall not be subject to the Deduction Limitation.

ARTICLE 5  
RETIREMENT BENEFIT

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

ARTICLE 6  
PRE-RETIREMENT SURVIVOR BENEFIT

- 6.1 PRE-RETIREMENT SURVIVOR BENEFIT. Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's vested Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.
- 6.2 PAYMENT OF PRE-RETIREMENT SURVIVOR BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form whether the Pre-Retirement Survivor Benefit shall be received by his or her Beneficiary in a lump sum or pursuant to an Annual Installment Method of 5, 10, 15 or 20 years. The Participant

may annually change this election to an allowable alternative payout period by submitting a new Election Form to the Committee, which form must be accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee prior to the Participant's death shall govern the payout of the Participant's Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then such benefit shall be paid in a lump sum. Despite the foregoing, if the Participant's vested Account Balance at the time of his or her death is less than \$25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, in a lump sum or pursuant to an Annual Installment Method of not more than 5 years. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7  
TERMINATION BENEFIT

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

ARTICLE 8  
DISABILITY WAIVER AND BENEFIT

- 8.1 DISABILITY WAIVER.
- (a) WAIVER OF DEFERRAL. A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Annual Bonus and/or Directors Fees for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) RETURN TO WORK. If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

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

ARTICLE 9  
BENEFICIARY DESIGNATION

9.1 BENEFICIARY. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

9.2 BENEFICIARY DESIGNATION; CHANGE; SPOUSAL CONSENT. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a

Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

- 9.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.
- 9.4 NO BENEFICIARY DESIGNATION. If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 9.5 DOUBT AS TO BENEFICIARY. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 9.6 DISCHARGE OF OBLIGATIONS. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 10  
LEAVE OF ABSENCE

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

shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11  
TERMINATION, AMENDMENT OR MODIFICATION

- 11.1 TERMINATION. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate and their vested Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum. After a Change in Control, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).
- 11.2 AMENDMENT. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided,

however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's vested Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

- 11.3 PLAN AGREEMENT. Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.



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

ARTICLE 12  
ADMINISTRATION

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

ARTICLE 13  
OTHER BENEFITS AND AGREEMENTS

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

ARTICLE 14  
CLAIMS PROCEDURES

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

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

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

- 14.3 REVIEW OF A DENIED CLAIM. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):
- (a) may review pertinent documents;
  - (b) may submit written comments or other documents; and/or
  - (c) may request a hearing, which the Committee, in its sole discretion, may grant.
- 14.4 DECISION ON REVIEW. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:
- (a) specific reasons for the decision;
  - (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
  - (c) such other matters as the Committee deems relevant.
- 14.5 LEGAL ACTION. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 15  
TRUST

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

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

ARTICLE 16  
MISCELLANEOUS

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

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

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

Deferred Compensation Plan Committee  
Western Digital Corporation  
20511 Lake Forest Drive  
Lake Forest, CA 92630

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

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

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

16.16 DISTRIBUTION IN THE EVENT OF TAXATION.

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

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

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

WESTERN DIGITAL CORPORATION  
Deferred Compensation Plan  
Master Plan Document

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

IN WITNESS WHEREOF, the Company has signed this Plan document as of March 28, 2003.

"Company"

Western Digital Corporation, a Delaware corporation

By: /s/ Raymond M. Bukaty

-----  
Title: Vice President, General Counsel  
and Secretary



Western Digital Corporation  
Executive Bonus Plan  
Amended and Restated Effective March 28, 2003  
Master Plan Document

TABLE OF CONTENTS

ARTICLE 1	Definition.....	1
ARTICLE 2	Selection, Enrollment and Eligibility.....	5
2.1	Selection by Committee.....	5
2.2	Enrollment Requirements.....	5
2.3	Eligibility; Commencement of Participation.....	6
ARTICLE 3	Vesting; Account Balance.....	6
3.1	Vesting in Change in Control Benefit.....	6
3.2	Forfeiture.....	6
3.3	Account Balance.....	7
ARTICLE 4	Benefits.....	7
4.1	Change in Control Benefit.....	7
4.2	Employer Benefit.....	8
4.3	Withholding and Payroll Taxes.....	8
ARTICLE 5	Beneficiary.....	8
5.1	Beneficiary.....	8
5.2	Beneficiary Designation; Change; Spousal Consent.....	8
5.3	Acknowledgment.....	9
5.4	No Beneficiary Designation.....	9
5.5	Doubt as to Beneficiary.....	9
5.6	Discharge of Obligations.....	9
ARTICLE 6	Termination, Amendment or Modification of the Plan.....	9
6.1	Termination, Amendment or Modification Prior to One Year Before Change in Control.....	9
6.2	Termination, Amendment or Modification Within One Year Before Change of Control or Following Change in Control.....	10
6.3	Termination of Plan Agreement.....	10
ARTICLE 7	Other Benefits and Agreements.....	10
7.1	Coordination with Other Benefits.....	10
ARTICLE 8	Trust.....	10
8.1	Establishment of the Trust; Premiums.....	10
8.2	Interrelationship of the Plan and the Trust.....	11

Western Digital Corporation  
Executive Bonus Plan  
Amended and Restated Effective March 28, 2003  
Master Plan Document

8.3	Accounts.....	11
ARTICLE 9	Insurance Policies.....	12
9.1	Policies.....	12
9.2	Documents Required by Insurer.....	12
ARTICLE 10	Administration.....	12
10.1	Committee Duties.....	12
10.2	Agents.....	13
10.3	Binding Effect of Decisions.....	13
10.4	Indemnity of Committee.....	13
10.5	Employer Information.....	13
ARTICLE 11	Claims Procedures.....	13
11.1	Presentation of Claim.....	13
11.2	Notification of Decision.....	14
11.3	Review of a Denied Claim.....	14
11.4	Decision on Review.....	14
11.5	Legal Action.....	15
ARTICLE 12	Miscellaneous.....	15
12.1	Unsecured General Creditor.....	15
12.2	Employer's Liability.....	15
12.3	Nonassignability.....	15
12.4	Not a Contract of Employment.....	16
12.5	Furnishing Information.....	16
12.6	Terms.....	16
12.7	Captions.....	16
12.8	Governing Law.....	16
12.9	Validity.....	16
12.10	Notice.....	16
12.11	Successors.....	17
12.12	Spouse's Interest.....	17
12.13	Incompetent.....	17
12.14	Distribution in the Event of Taxation.....	17

WESTERN DIGITAL CORPORATION

EXECUTIVE BONUS PLAN

AS AMENDED AND RESTATED EFFECTIVE MARCH 28, 2003

PURPOSE

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

ARTICLE 1

DEFINITIONS

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

- 1.1 "Administrative Account" shall mean an account established in accordance with Section 8.3(a)(ii) below.
- 1.2 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 5 below, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.3 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.4 "Board" shall mean the Board of Directors of the Company.
- 1.5 "Change of Control" means and shall be deemed to occur if any of the following events occur:
  - (a) Any person (other than other than the Company or any subsidiary thereof or any employee benefit plan of the Company or any subsidiary thereof, or any underwriter in connection with a firm commitment public offering of the Company's common stock), alone or together with its affiliates and

associates, including any group of persons which is deemed a "person" under Section 13(d) (3) of the Exchange Act, becomes the beneficial owner (as such term is defined in Rule 13d-3 of the Exchange Act, except that a person shall also be deemed the beneficial owner of all securities which such person may have a right to acquire, whether or not such right is presently exercisable), directly or indirectly, of thirty-three and one-third percent or more of:

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

corporations" (as defined in Section 1563 of the Code) in which the Company is a member;

- (f) The Company or any other Employer voluntarily files a petition for bankruptcy under federal bankruptcy law, or an involuntary bankruptcy petition is filed against any Employer under federal bankruptcy law, which involuntary petition is not dismissed within 120 days of the filing;
- (g) The Company or any other Employer makes a general assignment for the benefit of creditors; or
- (h) The Company or any other Employer seeks or consents to the appointment of a trustee, receiver, liquidator or similar person.

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

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

Western Digital Corporation  
Executive Bonus Plan  
Amended and Restated Effective March 28, 2003  
Master Plan Document

- 1.12 "Employer" shall mean the Company and/or any of its subsidiaries that have been selected by the Board to participate in the Plan.
- 1.13 "Employer Benefit" shall mean the benefit set forth in Section 4.2 below.
- 1.14 "Forfeiture" shall mean a forfeiture of a Participant's rights to benefits under this Plan as set forth in Section 3.2 below.
- 1.15 "Insurer" shall mean the insurance company or companies that issue one or more Policies.
- 1.16 "Participant" shall mean any employee of an Employer
- (a) who is selected to participate in the Plan,
  - (b) who elects to participate in the Plan,
  - (c) who signs a Plan Agreement and a Beneficiary Designation Form,
  - (d) whose signed Plan Agreement and Beneficiary Designation Form are accepted by the Committee, and
  - (e) whose Plan Agreement has not terminated.
- 1.17 "Participant's Account" shall mean an account established in accordance with Section 8.3(a)(i) below.
- 1.18 "Plan" shall mean the Western Digital Executive Bonus Plan, which is defined by this instrument and by each Plan Agreement, all as may be amended from time to time.
- 1.19 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant shall provide for the entire benefit to which such Participant is entitled to under the Plan, and the Plan Agreement bearing the latest date of acceptance by the Committee shall govern such entitlement.
- 1.20 "Plan Year" shall, for the first Plan Year, begin on May 16, 1994, and end on December 31, 1994. For each Plan Year thereafter, the Plan Year shall begin on January 1 of each year and continue through December 31 of that year.

- 1.21 "Policy" or "Policies" shall mean the policy or policies issued in the name of the Trustee in accordance with the terms and conditions of this Plan and each respective Plan Agreement.
- 1.22 "Reserve Account" shall mean an account established in accordance with Section 8.3(a)(iii) below.
- 1.23 "Retirement," "Retires" or "Retired" shall mean a Participant ceasing to be employed by all Employers for any reason other than a leave of absence, death, or Disability on or after a Participant attains the age of fifty-five (55).
- 1.24 "Termination of Employment" shall mean the ceasing of employment with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence.
- 1.25 "Trust" shall mean the trust established pursuant to that certain Trust Agreement, dated as of May 16, 1994, between the Company and the Trustee, as may be amended from time to time.
- 1.26 "Trustee" shall mean the trustee named in the Trust and any successor trustee.
- 1.27 "Vesting Date" shall mean the date upon which a Participant becomes 100% vested in his or her Change in Control Benefit in accordance with Section 3.1 below.
- 1.28 "Western DCP" shall mean the Western Digital Corporation Deferred Compensation Plan as in effect from time to time.

ARTICLE 2  
SELECTION, ENROLLMENT AND ELIGIBILITY

- 2.1 Selection by Committee. Participation in the Plan shall be limited to a select group of management and highly compensated employees of the Employers. From that group, the Committee shall select, in its sole discretion, employees to participate in the Plan.
- 2.2 Enrollment Requirements. As a condition to participation, each selected employee shall complete, execute and return to the Committee a Plan Agreement and a Beneficiary Designation Form. In addition, the Committee, in its sole



discretion, shall establish from time to time such other enrollment requirements as it determines are necessary.

- 2.3 Eligibility; Commencement of Participation. Provided an employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, that employee shall commence participation in the Plan on the date specified by the Committee. If a selected employee fails to meet all such requirements prior to that date, that employee shall not be eligible to participate in the Plan until the completion of those requirements.

ARTICLE 3  
VESTING; ACCOUNT BALANCE

- 3.1 Vesting in Change in Control Benefit. Subject to Section 3.2 below:

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

- 3.2 Forfeiture. Notwithstanding Section 3.1 above, a Participant shall forfeit rights to benefits under this Plan in accordance with this Section 3.2.

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

3.3 Account Balance. Within 45 days of the end of each Plan Year, each Participant shall receive a statement setting forth the balance of his or her Participant's account as of the end of that Plan Year.

#### ARTICLE 4 BENEFITS

4.1 Change in Control Benefit.

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

4.2 Employer Benefit.

- (a) Eligibility. The Participant's Employer shall be entitled to the Employer Benefit if and to the extent a Participant forfeits his or her Change in Control Benefit under Section 3.2 hereof.
- (b) Benefit and Payment. The "Employer Benefit" shall be a distribution of the forfeited assets allocated to and held in the Participant's Account as of the date of the event described in Section 3.2 above after taking into account any distributions made or to be made in accordance with Section 4.1 above, plus any earnings allocated to that account from that date to the date of payment of the Employer Benefit and (ii) a distribution of any amount allocated to the Reserve Account in accordance with Section 8.3(a)(iii) below. This benefit shall be paid to the Participant's Employer within 120 days of January 1 of the Plan Year following that event.

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

ARTICLE 5  
BENEFICIARY

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

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

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

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

ARTICLE 6  
TERMINATION, AMENDMENT OR MODIFICATION OF THE PLAN

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

- 6.2 Termination, Amendment or Modification Within One Year Before a Change of Control or Following a Change in Control. Within one year before a Change in Control and thereafter, neither the Company, any subsidiary of the Company nor any corporation, trust or other person that succeeds to all or any substantial portion of the assets of the Company shall have the right to terminate, amend or modify the Plan and/or any Plan Agreement in effect prior to such Change in Control, and all benefits under the Plan and any such Plan Agreement shall thereafter be paid in accordance with the terms of the Plan and such Plan Agreement, as in effect immediately prior to such Change in Control. If the Plan is terminated, amended, or modified within one year before the Change in Control, such termination, amendment or modification shall be considered void as of the date of the termination, amendment or modification. Any provision of this Plan or any Plan Agreement to the contrary shall be construed in accordance with this Section 6.2.
- 6.3 Termination of Plan Agreement. Absent the earlier termination, modification or amendment of the Plan, or a Participant's Forfeiture of his or her benefits under this Plan, the Plan Agreement of any Participant shall terminate upon the full payment of the applicable benefit provided under Article 4.

ARTICLE 7  
OTHER BENEFITS AND AGREEMENTS

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

ARTICLE 8  
TRUST

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

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

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

8.3 Accounts.

- (a) The Trustee shall establish and maintain the following separate accounts:
- (i) A "Participant's Account" for each Participant to which the Employers' contributions, or a portion thereof, and earnings thereon shall be allocated to and held, the assets of which are to be used to pay the Change in Control Benefit or the Employer Benefit in accordance with this Plan and the Trust; and
  - (ii) An "Administrative Account" for the administrative expenses of the Trust to which a portion of the Employers' contributions and earnings thereon may be allocated to and held, the assets of which are to be used to pay the administrative expenses, including all taxes, of the Trust in accordance with the terms and provisions of this Plan and the Trust; and
  - (iii) A "Reserve Account" to which shall be allocated all gains described in this subsection. In the event of the death of a Participant or a former Participant whose life is insured by a Policy, the excess of (a) the life insurance proceeds received from such Policy over (b) the cash value of such Policy as of the date immediately preceding the Participant's death shall constitute a gain allocable to the Reserve Account. Any such gain allocated to the Reserve Account shall be distributed as an Employer Benefit pursuant to Section 4.2(b).

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

ARTICLE 9  
INSURANCE POLICIES

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

ARTICLE 10  
ADMINISTRATION

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

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

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

ARTICLE 11  
CLAIMS PROCEDURES

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



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

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

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

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

ARTICLE 12  
MISCELLANEOUS

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

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

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

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

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

Deferred Compensation Plan Committee  
Western Digital Corporation  
20511 Lake Forest Drive  
Lake Forest, CA 92630

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

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

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

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

Western Digital Corporation  
Executive Bonus Plan  
Amended and Restated Effective March 28, 2003  
Master Plan Document

IN WITNESS WHEREOF the Company has signed this Plan document  
as of March 28, 2003.

WESTERN DIGITAL CORPORATION,  
a Delaware corporation

By: /s/ Raymond M. Bukaty  
-----

Officer's Name: Raymond M. Bukaty

WESTERN DIGITAL CORPORATION

NON-EMPLOYEE DIRECTORS RESTRICTED STOCK UNIT PLAN

Effective March 28, 2003

1. Purpose.

The purpose of this Western Digital Corporation Non-Employee Directors Restricted Stock Unit Plan is to enable the Company to make Awards to its Non-employee Directors of Restricted Stock Units (each, as defined below), to attract, retain and motivate its Non-employee Directors and to further align their interests with the interests of the Company's other stockholders.

2. Definitions.

As used herein, the following terms shall have the meanings ascribed thereto below:

(a) "ACCOUNT" means an unfunded bookkeeping account maintained by the Company for an Award to track vesting and value thereof pursuant to Section 5.

(b) "ADMINISTRATOR" means the Board, unless the Board has delegated authority to the Committee, in which event the Administrator shall mean the Committee.

(c) "AWARD" means an Initial Grant, an Annual Grant or a Partial Grant of Restricted Stock Units under the Plan.

(d) "BOARD" means the Board of Directors of the Company.

(e) "COMMITTEE" means the Compensation Committee of the Board consisting solely of two (2) or more Non-employee Directors.

(f) "COMMON STOCK" means the common stock of the Company.

(g) "COMPANY" means Western Digital Corporation, a Delaware corporation, or any successor assuming or substituting Awards pursuant to Section 4(b)(iii).

(h) "DEFERRED COMPENSATION PLAN" means the Company's Amended and Restated Deferred Compensation Plan, as amended from time to time.

(i) "DISABILITY" means a period of disability during which a Participant qualifies for permanent disability benefits under the Company's long-term disability plan, or, if the Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of

the Administrator. If the Company does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Administrator in its sole discretion.

(j) "FAIR MARKET VALUE" per share of Common Stock, as of any date, means the closing price for a share of Common Stock reported for that date on the New York Stock Exchange (or such other national stock exchange or quotation system on which shares of Common Stock are then listed or quoted) or, if no shares of Common Stock are traded on the New York Stock Exchange (or such other stock exchange or quotation system) on the date in question, then the closing price for the next preceding date on which there was such a trade on the New York Stock Exchange (or such other stock exchange or quotation system). If at any time the Common Stock is no longer traded on a national stock exchange or quotation system, the Fair Market Value of the Common Stock as of the date in question shall be as determined by the Administrator in good faith.

(k) "NON-EMPLOYEE DIRECTOR" means a director who is both a "non-employee director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

(l) "NOTICE OF AWARD" shall mean a Notice of Award in the form established from time to time by the Administrator setting forth the number of Restricted Stock Units awarded thereunder.

(m) "PARTICIPANT" means any Eligible Director to whom an Award has been made.

(n) "PLAN" means this Western Digital Corporation Non-Employee Directors Restricted Stock Unit Plan, as amended from time to time.

(o) "REMOVAL" means removal of a Participant from the Board, with or without cause, in accordance with the Company's Certificate of Incorporation, Bylaws or Delaware General Corporate Law.

(p) "RESTRICTED STOCK UNIT" is an unfunded bookkeeping entry representing the cash equivalent of the Fair Market Value of one share of Common Stock.

(q) "45 DAY AVERAGE PRICE" shall mean the average of the Fair Market Value of a share of Common Stock for the forty-five (45) trading days prior to and including the applicable measurement date, subject, in the discretion of the Administrator, to any adjustments for stock splits or other transactions affecting the Common Stock during such period.

### 3. Participation in the Plan.

(a) Non-employee Directors of the Company ("Eligible Directors") shall be eligible to participate in the Plan. Each Eligible Director shall, if required by the Company, enter into an agreement with the Company in such form as the Company shall determine consistent with the provisions of the Plan for purposes of implementing the Plan or



effecting its purposes. In the event of any inconsistency between the provisions of the Plan and any such agreement, the provisions of the Plan shall govern.

#### 4. Credits

(a) General. Upon the effectiveness of the Plan, the Company, shall grant to each then Eligible Director 2,100 Restricted Stock Units (the "Initial Grant"), and shall grant to each Eligible Director on each January 1 thereafter 2,100 Restricted Stock Units (the "Annual Grant"). If a person first becomes an Eligible Director at any time following the date of the effectiveness of the Plan, the Company shall pro-rate the Initial Grant and grant such Eligible Director the number of Restricted Stock Units equal to the product of (i) the Initial Grant divided by 365 and (ii) the number of days from the date such person became an Eligible Director to the date of the next Annual Grant (a "Partial Grant"). The Company shall establish a separate Account for each Award. No fractional Restricted Stock Units shall be granted, and any fractional Restricted Stock Unit shall be rounded up to the nearest whole number. Each Award shall be evidenced by a Notice of Award issued by the Company.

#### (b) Additional Credits.

(i) Whenever the Company shall pay any dividends (other than in Common Stock) upon issued and outstanding Common Stock, or make any distribution (other than in Common Stock) with respect thereto, there shall be credited to each Account of a Participant a number of Restricted Stock Units determined by multiplying the "fair value" of any dividend (or other distribution) made by the Company with respect to one share of its Common Stock by the number of Restricted Stock Units in that Account and then dividing that product by 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, the "fair value" thereof shall be such amount as shall be determined in good faith by the Administrator.

(ii) If the Company pays any dividend or distribution upon its issued and outstanding Common Stock payable in additional shares of such Common Stock there shall be credited to each Account of a Participant a number of Restricted Stock Units equal to the product obtained by multiplying (i) the number of Restricted Stock Units in that Account at the time of payment of such dividend or distribution by (ii) the number of shares of Common Stock issued as a stock dividend or distribution by the Company with respect to one share of its Common Stock.

(iii) In the event of a stock split, reverse stock split, recapitalization, reorganization, consolidation or like change in the capital structure of the Company affecting the Common Stock not addressed by Section 4(b)(i) or 4(b)(ii), if the Administrator shall determine that such change equitably requires an adjustment or adjustments in the number or kind of Restricted Stock Units then allocated to Participants' Accounts, or other computations or amounts under the Plan based upon Common Stock or its value, such adjustments shall be made by the Administrator in its

sole discretion and shall be conclusive and binding for all purposes of the Plan. In the event of a liquidation of the Company, or a merger, reorganization, or consolidation of the Company with any other corporation in which the Company is not the surviving corporation or the Company becomes a wholly-owned subsidiary of another corporation, if the surviving corporation in any such merger, reorganization, or consolidation does not assume the Award or agree to issue a substitute award in place thereof, then any unvested Restricted Stock Units shall vest in full and become payable in accordance with Section 5(c) of the Plan immediately prior to such liquidation, merger, reorganization, or consolidation.

(iv) No fractional Restricted Stock Units shall be credited to an Account pursuant to this Section 4(b), and any fractional Restricted Stock Unit that otherwise would be credited shall be rounded up to the nearest whole number.

(c) Cessation of Credits. There shall be no further credits to an Account after the Restricted Stock Units in such Account fully vest, or to any Account or Accounts of a Participant after he or she ceases to be a director of the Company for any reason.

## 5. Vesting and Payment.

(a) Vesting. Participants shall have no vested interest in Restricted Stock Units prior to vesting thereof. Restricted Stock Units shall vest 100% on the third anniversary of the date of the Award, provided that the Participant has remained a director of the Company for the entire period from the date of grant to the date of vesting. If a Participant has served as a director of the Company for at least 48 continuous months and is at least 55 years old when such director ceases to be a director of the Company for any reason other than Removal (a "Retired Director"), all unvested Restricted Stock Units of such Retired Director shall vest effective upon such director's termination as a director of the Company and become payable in accordance with Section 5(c) of the Plan. If a Participant ceases to be a director of the Company for any reason other than Removal prior to being eligible to become a Retired Director, then all of such Participant's unvested Restricted Stock Units granted within the first twelve months immediately prior to the date of such termination shall terminate without vesting; 1/3 of all of such Participant's unvested Restricted Stock Units granted within the second twelve month period prior to such termination shall immediately vest and become payable in accordance with Section 5(c) of the Plan; and 2/3 of all of such Participant's unvested Restricted Stock Units granted within the third twelve month period prior to such termination shall immediately vest and become payable in accordance with Section 5(c) of the Plan. Any Restricted Stock Units that have not vested at the time of, or do not vest upon, a Participant ceasing to be a director of the Company shall terminate and be forfeited.

(b) Acceleration upon Death or Disability. Notwithstanding Section 5(a), if a Participant ceases to be a director of the Company due to death or Disability, then, subject to Section 5(g), all of such Participant's Restricted Stock Units shall immediately vest in full and become payable in accordance with Section 5(c) of the Plan.

(c) Payment Amount and Maximum Payment Amount. Subject to Section 5(f) herein, within fifteen (15) business days after the Restricted Stock Units in an Account have vested, the Company shall pay to the Participant, in cash, an amount equal to the product of the number of Restricted Stock Units in that Account on the date of vesting and the 45 Day Average Price as of the date of vesting (the "Payment Amount"), provided, however, that in no event shall the Payment Amount for any Account exceed 200% of the value of the Account on the date of the Award, with such value on the date of the Award calculated as the product of the number of Restricted Stock Units in that Account on the date of the Award and 45 Day Average Price as of the date of the Award. Notwithstanding the foregoing, if a Participant ceases to be a director of the Company for any reason other than death or Disability prior to being eligible to become a Retired Director, in no event shall the Payment Amount for any Account of such Participant that vests as a result of such termination exceed the value of the Account on the date of the Award, with such value on the date of the Award calculated as the product of the number of Restricted Stock Units in that Account on the date of the Award and the 45 Day Average Price as of the date of the Award.

(d) Payments Only to the Director. Payments pursuant to the Plan shall be made only to the Participant or his or her heirs or successors pursuant to Section 11 upon his or her death.

(e) Payments Only in Cash. All payments to Participants hereunder shall be in cash.

(f) Deferral. A Participant may elect at any time prior to December 31 of at least one complete calendar year prior to the date of vesting of the Restricted Stock Units in an Award to defer receipt of any or all payments due under the Plan with respect to such Award. Such elections shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan.

## 6. Administration.

(a) Administrator. The Plan shall be administered by the Administrator, which shall have the power to construe the Plan, to resolve all questions arising under the Plan, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and otherwise to carry out the terms of the Plan, but only to the extent not contrary to the express provisions of the Plan. The determinations, interpretations, and other actions of the Administrator of or under the Plan or with respect to any Restricted Stock Units granted pursuant to the Plan shall be final and binding for all purposes on all persons. None of the Administrator, the Company nor any officer or employee thereof shall be liable for any action or determination taken or made under the Plan in good faith.

(b) Amendment, Modification, Suspension and Termination of the Plan. The Board may from time to time in its discretion amend, modify, suspend, or terminate, in whole or in part, any or all provisions of the Plan, including but not limited to modifying the vesting periods for the Restricted Stock Units to provide for shorter or longer vesting period or the number of Restricted Stock Units granted. The Board may amend, modify,

suspend or terminate outstanding Awards, provided, however, outstanding Awards shall not be amended, modified, suspended or terminated in such a manner 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 Award reduces the vesting period, then any election that had been made to defer receipt of any or all payments due under the Plan with respect to such Award pursuant to the Deferred Compensation Plan shall be disregarded.

7. Taxes.

The Company shall be authorized to withhold from any grant, credit, payment or settlement of Restricted Stock Units the amount of any taxes required to be withheld in respect of such grant, payment or settlement or any credit of dividend equivalents under such Restricted Stock Units or under the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such taxes.

8. No Rights as a Stockholder.

Participants shall have no dividend, voting, or any other rights as a stockholder of the Company with respect to any Restricted Stock Unit.

9. No Property Rights.

The grant of an Award pursuant to the Plan shall not be deemed the grant of a property interest in any assets of the Company. An Award evidences only a general obligation of the Company to comply with the terms and conditions of the Plan and make payments in accordance with the Plan from the assets of the Company that are available for the satisfaction of obligations to creditors. The Company shall not segregate any assets in respect of any Award or Account. The rights of the recipient of Restricted Stock Units to benefits under the Plan shall be solely those of a general, unsecured creditor of the Company.

10. Reorganization.

The receipt of an Award under the Plan shall not affect the right of the Company to reclassify, recapitalize or otherwise change its capital or debt structure or to merge, consolidate, convey any or all of its assets, dissolve, liquidate, windup or otherwise reorganize.

11. Assignment.

No right or interest to or in the Plan, or any payment or benefit to a Participant shall be assignable by the Participant except by will or the laws of descent and distribution. No right, benefit or interest of the Participant hereunder shall be subject to anticipation, alienation, sale, assignment, encumbrance, charge, pledge, hypothecation or set off in respect of any claim, debt or obligation, or to execution, attachment, levy or similar process or assignment by operation of law. Any attempt, voluntarily or

involuntarily, to effect any action specified in the immediately preceding sentences shall, to the full extent permitted by law, be null, void and of no effect; provided, however, that this provision shall not preclude a Participant hereunder from designating one or more beneficiaries to receive any amount that may be payable to the Participant after his or her death and shall not preclude the legal representatives of the Participant's estate from assigning any right hereunder to the person or persons entitled thereto under his or her will, or, in the case of intestacy, to the person or persons entitled thereto under the laws of intestacy applicable to his or her estate.

12. No Right to Continued Board Membership.

The grant of Restricted Stock Units shall not be construed as giving a Participant the right to be retained as a director of the Company. The Board may at any time fail or refuse to nominate a Participant for election to the Board, the stockholders of the Company may at any election fail or refuse to elect any Participant to the Board, or a Participant may be subject to Removal, in each case, free from any liability or claim under the Plan or any Restricted Stock Unit except as expressly set forth herein.

13. Effective Date and Duration of the Plan.

The Plan shall be effective March 28, 2003. The Plan shall terminate upon the approval of the Board. Deferral elections pursuant to Section 5(f) may be made under the Plan prior to its effectiveness, but no issuances under the Plan shall be made before its effectiveness or after its termination.

14. Invalid Provisions.

If any provision of the Plan is held to be illegal, invalid or unenforceable under present or future laws effective during the term of the Plan, such provision shall be fully severable; the Plan shall be construed and enforced as if such illegal, invalid or unenforceable provision had never been a part of the Plan; and the remaining provisions of the Plan shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or severance from the Plan. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of the Plan a provision as similar in terms to such illegal, invalid or unenforceable provision as is possible and still be legal, valid and enforceable.

15. Governing Laws.

The Plan and all rights and obligations under the Plan shall be construed in accordance with and governed by the laws of the State of California, excluding its conflicts of laws principles.

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SUPPLY AGREEMENT FOR THE FABRICATION AND PURCHASE OF  
SEMICONDUCTOR PRODUCTS

BY AND BETWEEN

MARVELL SEMICONDUCTOR, INC.,

MARVELL ASIA PTE LTD  
and

WESTERN DIGITAL TECHNOLOGIES, INC.

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SUPPLY AGREEMENT FOR THE FABRICATION AND PURCHASE OF  
SEMICONDUCTOR PRODUCTS

Section - - - - -	Page - - - - -	
1.0	Definitions	Page 3
2.0	Term of Agreement	Page 4
3.0	[*]	Page 4
4.0	Forecast of Product Purchases	Page 5
5.0	Purchase Orders	Page 5
6.0	Supplier's [*] Obligation and Buyer's [*] Obligations	Page 6
7.0	Rescheduling Shipment Dates	Page 7
8.0	Cancellation of Purchase Orders	Page 8
9.0	Pull Signals	Page 8
10.0	[*] Program	Page 9
11.0	Quarterly Business Review	Page 9
12.0	Invoicing, Payment Terms, Taxes	Page 9
13.0	Termination	Page 10
14.0	Engineering Changes	Page 11
15.0	Quality Standards	Page 11
16.0	Product Warranty	Page 11
17.0	Supplier's Indemnity	Page 12
18.0	Confidential Information	Page 13
19.0	Supplier Engineering Support	Page 13
20.0	Notice	Page 13
21.0	General Provisions	Page 14

Exhibit A  
Exhibit B  
Exhibit C

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SUPPLY AGREEMENT FOR THE FABRICATION AND PURCHASE OF  
SEMICONDUCTOR PRODUCTS

THIS SUPPLY AGREEMENT FOR THE FABRICATION AND PURCHASE OF SEMICONDUCTOR PRODUCTS (this "Agreement"), dated June 13, 2002, is made and entered into by and among WESTERN DIGITAL TECHNOLOGIES, INC. ("Buyer"), MARVELL SEMICONDUCTOR, INC., ("MSI"), MARVELL ASIA PTE LTD ("MAPL")(MSI AND MAPL are collectively the "Supplier"). Buyer and Supplier are each a "party" and, collectively, are the "parties" to this Agreement.

Buyer agrees to purchase from Supplier, and Supplier agrees to supply to Buyer, Buyer's read channel supply requirements in accordance with the terms and conditions stated in this Agreement and in any written exhibits agreed to by the parties, attached to this Agreement and incorporated herein.

1.0 DEFINITIONS

1.1 Commencement Date: June 13, 2002.

1.2 Engineering Change: A mechanical or electrical change to a Product which may effect the form, fit, function or maintainability of the Product

1.3 Plant of Manufacture: Buyer's manufacturing facility or assigned JIT hubs.

1.4 Product(s): For the purposes of this Agreement, Product or Products, as the case shall be, shall mean Supplier's [\*] series read channel integrated circuit devices. The parties agree that from time to time, the parties may amend the definition of Products hereunder, but only if both parties agree to do so in writing. The parties agree that, until amended, the prices for each Product shall be as set forth in Exhibit A.

1.5 Purchase Order: An order submitted by Buyer for the purchase of Products under this Agreement.

1.6 Purchase Order Lead Time: The required minimum amount of time between Supplier's receipt of a Purchase Order issued by Buyer and the requested Shipment Date necessary to complete Seller's entire manufacturing cycle time, including Front End Manufacturing Cycle Time and Back End Manufacturing Cycle Time. Purchase Order Lead Time shall be jointly determined by Buyer and Supplier [\*].

1.7 Front End Manufacturing Cycle Time: Lead-time from wafer start through probe and shipping.

1.8 Back End Manufacturing Cycle Time: Lead-time from probe, die bank, assembly, test and shipping.

1.9 Shipment Date: Date for shipment of Products specified by Buyer in a Purchase Order or Pull Signal accepted by Supplier.

1.10 Related Company: A corporation, company or other entity which controls or is controlled by a party hereunder or any another Related Company of such party,



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where control means ownership or control, direct or indirect, of more than fifty (50) percent of: (i) the outstanding voting shares or securities (representing the right to vote for the election of directors or managing authority), or (ii) the ownership interests representing the right to make decisions for such a corporation, company or other entity (as the case may be in a partnership, joint venture or unincorporated association having no outstanding shares or securities). However, any such corporation, company or other entity shall be deemed to be a Related Company of such party only so long as such ownership or control exists.

- 1.11 Unit(s): A single unit of the Product.
- 1.12 Phase out: Supplier's determination to exit the ASIC business as defined in this Agreement.
- 1.13 LCBI: Lot Control Burn In.
- 1.14 Epidemic Failure: In the case of: (i) customer line integration, any component-related failure resulting in a DPPM level of [\*]; (ii) a field failure, any component-related failure resulting in a DPPM level or [\*] measured over a [\*] day period; or, (iii) at an end user site, a higher than expected failure rate as measured against the installed base and the root cause of such failure is attributable to a single component, the root cause of which is directly attributable to Supplier's integrated circuit design or an integrated circuit fabrication issue.
- 1.15 Field Recall: Buyer-initiated recall of shipped units of Buyer's products directly resulting from a failure of Supplier's Products directly attributable to Supplier's integrated circuit design or an integrated circuit fabrication issue. Field Recall shall not include normal warranty returns over time.
- 1.16 QBR: Quarterly Business Review conducted by the parties hereto during the term of this Agreement.
- 1.17 SQR: Supplier Quality Rating.
- 1.18 SSR: Supplier Service Rating.
- 1.19 SDR: Supplier Development Rating.

## 2.0 TERM OF AGREEMENT

The term of this Agreement shall commence on the Commencement Date and shall expire five (5) years thereafter, unless otherwise terminated by either of the parties in accordance with the provisions of this Agreement.

## 3.0 [\*]

No later than June 24, 2002, Supplier shall [\*]

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[\*]

#### 4.0 FORECAST OF PRODUCT PURCHASES

- 4.1 Buyer shall issue to Supplier a forecast covering a period of [\*] to [\*] months (current fiscal quarter and [\*] subsequent quarters) on the first week of every Buyer fiscal quarter or more regularly as Buyer deems necessary. Seller shall acknowledge receipt and acceptance of Buyer's forecast by return facsimile or e-mail within forty-eight (48) hours of Buyer's issuing such forecast. If Supplier fails to respond to Buyer's forecast within forty-eight (48) hours, such forecast shall be deemed accepted by Buyer. Both Supplier and Buyer agree that forecasts constitute good faith estimates of Buyer's anticipated requirements of Products for the periods indicated based on current market conditions, and Supplier's acceptance shall constitute Supplier's agreement that it will exercise good faith efforts to quote and supply the requirements set forth in such forecast if finally ordered by Buyer in accordance with applicable provisions of this Agreement.
- 4.2 If Supplier cannot meet Buyer's requirements as set forth in a forecast or Buyer greatly reduces its forecast, Supplier and Buyer agree to engage in good faith discussions to resolve the issue on terms satisfactory to both parties.

#### 5.0 PURCHASE ORDERS

- 5.1 Buyer shall submit a Purchase Order to Supplier on a quarterly basis. The Purchase Order shall specify [\*] for the Products [\*] covered by the Purchase Order and shall be based on [\*] as of the date of the Purchase Order.
- 5.2 Subject to the rescheduling and cancellation provisions herein, Buyer agrees that it shall [\*]. Supplier will ship Products during the quarter by the Shipment Dates specified in the Purchase Order or, if Buyer chooses, by Shipment Dates specified in Pull Signals issued by Buyer throughout the quarter. Any [\*], unless Buyer informs Supplier otherwise in advance and in writing.
- 5.3 Supplier will acknowledge receipt and acceptance of Buyer's Purchase Orders within 48 hours of receipt. If Supplier fails to respond to Buyer's Purchase Order within forty-eight (48) hours, such Purchase Order will be deemed accepted by Supplier. Purchase Orders must be placed in advance, with at least the Purchase Order Lead Time agreed to by the Parties, to allow Supplier to meet Buyer's requested Shipment Date. Buyer may request, without incurring any liability

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hereunder, improved Shipment Dates, and Supplier will [\*].

5.4 Purchase Order Lead Times shall be [\*]. Purchase Order Lead Times may not increase above [\*] weeks during the term of this Agreement. Supplier shall undertake [\*] to reduce Purchase Order Lead Times during the Term of this Agreement to [\*] lead times of [\*] weeks.

5.5 Purchase Orders and acknowledgements thereof exchanged by the parties will be used to convey Product order information only. If the terms of a Purchase Order conflict with the terms of this Agreement, the terms of this Agreement shall govern.

5.6 Supplier shall supply [\*] the Products at the prices set forth in Exhibit A attached hereto [\*].

5.7 Buyer's Purchase Orders issued hereunder shall specify and include the following information:

- a) Buyer's [\*] for the Product being purchased;
- b) Quantity of Product requested;
- c) Product price agreed to by the parties per the applicable exhibit to this Agreement;
- d) Location to which the Buyer specifies the Products shall be shipped and the Shipment Date specified by the Buyer; and
- e) Reference to this Agreement.

6.0 SUPPLIER'S [\*] OBLIGATION AND BUYER'S [\*] OBLIGATIONS.

6.1 [\*], Supplier shall [\*] in accordance with EXHIBIT B from [\*] through [\*] and shall [\*] supply Buyer with up to [\*] Product units per month beginning in [\*] and

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continuing through the life of the Buyer hard drive products incorporating Supplier's Products.

6.2 In consideration of (i) Supplier [\*] on Buyer's behalf as set forth above, (ii) Supplier [\*] and (iii) [\*] contemplated in Section [\*] below and Supplier's performance thereon, Buyer agrees that Buyer shall [\*] during the Term of this Agreement.

6.3 Buyer and Supplier agree to work in good-faith to mutually define the development and design milestones, pricing, delivery and other reasonable requirements of all Products supplied hereunder. Notwithstanding the contrary provisions of this section, Buyer's obligation to [\*].

6.4 Buyer agrees to work in good faith to complete [\*]. Buyer agrees to [\*] to complete the [\*], and agrees to work [\*].

7.0 RESCHEDULING SHIPMENT DATES

7.1 Buyer may reschedule, without incurring any charge or liability to Seller, the Shipment Date for up to 100% of the amount of the Products specified in a Purchase Order accepted by Supplier, provided that Buyer has provided to Supplier written notice of such rescheduled Shipment Date within the time periods specified in the table below. Buyer may reschedule each shipment of Products a single time for up to ninety (90) days without incurring any charge or liability to Supplier.

Number of Calendar Days' Notice Prior to Shipment Date	Amount of Purchase Order Subject to Reschedule	Maximum amount of days a reschedule quantity can be moved from original ship date
0 to [*] days	0	
[*] to [*] days	[*]	[*] days

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[*] to [*] days	[*]	[*] days
[*] days or more	[*]	[*] days

8.0 CANCELLATION OF PURCHASE ORDERS

8.1 Buyer may cancel a Purchase Order upon written notice to Supplier only in accordance with the terms of this Agreement. Once Supplier has received Buyer's notice of cancellation, Supplier will immediately cease all work assembling Products in support of such canceled Purchase Order and will provide a status report of the works in progress ("WIP") to assess Buyer's liability for such WIP. Buyer shall have the right to inspect the WIP to verify the accuracy of Supplier's status report. Buyer agrees that upon notifying Supplier that a Purchase Order is cancelled, Buyer shall assume liability for such WIP according to the following schedule based on the Purchase Order Price (POP) for each outstanding Purchase Order

Finished Goods	[*] of (POP)
Final Test	[*] of POP
Assembly	[*] of POP
Die Bank	[*] of POP
Wafer Fab	[*] of POP

8.2 No cancellation charges will be due if:

- a) [\*] a Purchase Order because of a [\*] of more than [\*] from a designated Shipment Date due [\*];
- b) Buyer cancels a Purchase Order because Supplier executes an unauthorized Engineering Change or an unauthorized change to the Product qualification plan of record agreed to by the parties (i.e. change of fabrication site, assembly site, and or test site); or
- c) [\*] a Purchase Order because [\*].

9.0 PULL SIGNALS

9.1 Each week during the term hereof, Buyer shall issue to Seller a Pull Signal which shall cover a [\*] week period commencing on the day Supplier receives such Pull Signal and continuing through the subsequent calendar week. Such Pull Signal shall specify the amount of Products and the Shipment Dates by which Products are to be delivered during such [\*] week period.

9.2 Supplier shall acknowledge, by return facsimile or e-mail, its receipt and acceptance of each Pull Signal within [\*] of Buyer's issuing such Pull Signal. Any Pull Signal not so accepted will be deemed rejected.

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9.3 If the Pull Signal is or is deemed rejected by Supplier, Supplier shall notify Buyer within [\*] of receiving the Pull Signal and provide Buyer with an alternative to the Product amounts and Shipment Dates contained in the Pull Signal. If Buyer is not satisfied with Supplier's response, both Buyer and Supplier agree to immediately hold discussions to resolve their disagreement.

#### 10. [\*] PROGRAM

Supplier will maintain a [\*] approximately [\*] remaining in such [\*]. The [\*] will consist of [\*] designated by Buyer [\*] designated by Supplier but acceptable to Buyer. Any change [\*] set forth above must be mutually agreed upon between Buyer and Supplier. Supplier will have [\*] Product ramp and, thereafter, shall [\*] for the term of this Agreement. Buyer and Supplier will monitor Buyer's demand for Products quarter to quarter with the intent of [\*] the [\*] that there is no further requirement for the Product.

#### 11. QUARTERLY BUSINESS REVIEW

Buyer and Supplier shall meet on a quarterly basis for a QBR. The QBR shall focus on the SDR, SQR and SSR that Supplier has earned for the preceding quarter. The parties shall review the Supplier's performance during the preceding quarter, identify areas for improvement and recommend actions to be taken by either Supplier or Buyer or both Supplier and Buyer to satisfy the parties' business goals.

#### 12.0 INVOICING, PAYMENT TERMS, TAXES

12.1 Supplier shall invoice Buyer for all Products shipped to Buyer's JIT Hub located in Malaysia or to such other location, as Buyer shall designate from time to time hereunder. Supplier shall ship all Products [\*] from Supplier's facility. Supplier will invoice Buyer once the Product is pulled from Buyer's JIT Hub, and Buyer shall complete full and final payment of such invoice within [\*] of the date of Supplier's invoice. Buyer will maintain good-faith efforts [\*]. In the event that Buyer does not pay Supplier's invoice within [\*] days of the date of the invoice, Buyer shall pay subsequent Supplier invoices no later than [\*] days after the date of Supplier's invoice. If Buyer thereafter pays all invoices within [\*] days of the date of Supplier's invoice for three successive

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months, Buyer shall again be permitted to pay subsequent invoices from Supplier within [\*] days of the date of such invoices [\*].

- 12.2 Buyer agrees to pay any taxes resulting from the transactions contemplated under this Agreement unless Buyer can provide appropriate exemption certificates.
- 12.3 Buyer represents that it holds a valid Reseller's exemption certificate for Products purchased for resale in each applicable taxing jurisdiction. Based on this representation, Supplier shall, where the law permits, treat Buyer as exempt from applicable state and/or local sales tax for Products purchased hereunder.
- 12.4 Buyer shall promptly notify Supplier in writing of any modification or revocation of Buyer's exempt status. Buyer shall reimburse Supplier for any and all assessments resulting from a refusal by a taxing jurisdiction to recognize any Buyer exemption certificates, or from Buyer's failure to have a valid certificate.

### 13. TERMINATION

- 13.1 If either party is in default of any material provision of this Agreement and such default is not corrected within [\*] days of receipt of written notice, this Agreement may be terminated by the party not in default. If the default is such that it cannot be reasonably cured within [\*] days, then the defaulting party must commence cure within [\*] days and proceed to cure [\*]. These provisions shall not affect Supplier's obligations to Buyer set forth below in this Section 13, in the event of Supplier's breach of a material provision of this Agreement.
- 13.2 If Buyer terminates this Agreement due to Supplier's default, all outstanding Purchase Orders shall be [\*].
- 13.3 If Supplier terminates this Agreement due to Buyer's default, at Supplier's discretion, all outstanding Purchase Orders shall be automatically cancelled and the cancellation charges set forth in this Agreement shall apply [\*].
- 13.4 If Supplier (i) decides to [\*] or (ii) Supplier is unable to [\*], then Supplier agrees to do the following:

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[\*].

14. ENGINEERING CHANGES

Supplier shall not make any Engineering Changes to Products under this Agreement once final production level Product is qualified unless such Engineering Change is specified in writing and expressly accepted by Buyer.

15. QUALITY STANDARDS

Supplier agrees to make [\*] to achieve all quality and reliability requirements to be set forth in a Statement of Quality (the "SOQ"), in substantially the same form as Exhibit C hereto, to be mutually agreed upon by the parties. Supplier agrees that the requirements set forth in the SOQ shall apply to all Products that Supplier supplies to Buyer hereunder.

16. PRODUCT WARRANTY

16.1 Notwithstanding any other provision of this Agreement, Supplier warrants that for a period of [\*] each unit of Product delivered will comply with each part of the [\*] including all changes to and iterations of [\*] and that such Product will be [\*] provided, that, such use is in conformance with the [\*]. All [\*] are provided [\*].

16.2 If Buyer determines during the warranty period that a Product does not conform to the [\*], Supplier's obligation shall be limited to (i) replacing such Product with a new Product that conforms to Seller's warranty or (ii) issuing Buyer a credit equal to the amount that Buyer paid for the Product, at Supplier's option.

16.3 In addition to Supplier's obligations under Section 16.2, in the event of an [\*] of a Product during Supplier's warranty term or



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Buyer's warranty term, whichever is shorter, Buyer and Supplier shall meet and attempt to develop a mutually satisfactory resolution regarding liability resulting from [\*]. In the event that the parties are unable to reach a mutually satisfactory resolution, each party reserves all claims and defenses available to it, at law or in equity, regarding such [\*].

16.4 Subject to the confidentiality provisions of this Agreement, Buyer agrees to provide Supplier with Buyer's [\*] that Buyer generates [\*] of manufacturing its hard drive products that incorporate the Products.

#### 17.0 SUPPLIER'S INDEMNITY

17.1 Supplier agrees to indemnify, defend and hold harmless Buyer and its Related Companies and their respective directors, officers, employees, representatives, agents, successors and assigns, from and against any claims, losses, damages, liabilities, causes of action, suits, costs and expenses, including all reasonable attorneys' fees and disbursements of counsel and expenses of investigation, finally awarded against Buyer or its Related Companies arising out of or related to (a) any claims, actions, suits or proceedings alleging that any Products that Buyer purchases or otherwise receives from Supplier infringe any patent, trade secret, copyright or other intellectual property rights of any third party and (b) any claims, actions, suits or proceedings whether in tort, contract or otherwise alleging personal injury or death, or any damage to any property, caused or allegedly caused by any negligent act or omission by Supplier or any defect in any Products that Buyer purchases or otherwise receives from Supplier. Notwithstanding the foregoing, Supplier is not obligated to defend or settle any such suit and is not obligated to pay any such damages or costs, if such claim arises out of (i) a combination of the Supplier's technology with technology not supplied by the Supplier or (ii) a modification, alteration or amendment of the Supplier's Technology. In the event that any Products are alleged to be infringing, Supplier agrees, in its sole discretion and at its own expense, to (i) procure for Buyer the right to continue to use such Products, (ii) replace such Products with noninfringing products that comply with Section 16.1 above, or (iii) modify such Products so that they become noninfringing and continue to comply with Section 16.1 above.

17.2 Buyer agrees to indemnify, defend and hold harmless Supplier and its Related Companies and their respective directors, officers, employees, representatives, agents, successors and assigns from and against any claims, losses, damages, liabilities, causes of action, suits, costs and expenses, including all reasonable attorneys' fees and disbursements of counsel and expenses of investigation, finally awarded against Supplier or its Related Companies arising out of or related to any claims, actions, suits or proceedings alleging that any specification, design or implementation detail that Supplier receives from Buyer or that Supplier is

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required to incorporate into any Products as a result of Buyer's requirements or technical specifications infringes any patent, trade secret, copyright or other intellectual property right of a third party.

18. CONFIDENTIAL INFORMATION

18.1 Except as set forth below, all information exchanged under this Agreement will be deemed to be non-confidential. If either party determines that it becomes necessary to exchange confidential information in order to perform under this Agreement, the exchange of such confidential information will be made under a separate written nondisclosure agreement.

18.2 Each party (i) will keep the existence of this Agreement confidential until the first Unit is shipped by Supplier to Buyer, (ii) will keep the contents of this Agreement confidential during the term of the Agreement and for a period of [\*] thereafter, and (iii) will not, without first obtaining the written consent of the other party, disclose any portion of this Agreement or any information contained herein to any third party except as may be required to enforce this Agreement or as may be required by applicable statute, regulation or court order. In the event such disclosure is required, the party making such disclosure will provide the other party sufficient notice for the other party to seek appropriate protection, in court if necessary. In the event of disclosure thereafter, the party making the disclosure will keep such disclosure to a minimum and protect the information so disclosed by a protective order or the like unless otherwise agreed by the parties.

The parties agree that each party may be required to file this Agreement as an exhibit to filings each party makes with the U.S. Securities and Exchange Commission (the "SEC"). In connection with any such filing, each party agrees to seek confidential treatment of the terms of the Agreement from the SEC, and each party further agrees to notify the other party in advance of such filing and to work cooperatively with the other party regarding the form and content of such confidential treatment request.

19. SUPPLIER ENGINEERING SUPPORT

Supplier agrees to support [\*] for the Products and any other [\*] covered by this Agreement. Support to include [\*] all of which [\*] shall be subject to the provisions of the NDA.

20. NOTICES

Any notices or other communications given by either party under this Agreement shall be in writing and shall be (a) delivered personally, (b) transmitted by facsimile machine with

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confirmation in writing mailed first class, (c) sent by a nationally recognized overnight courier or overnight mail service that guarantees overnight delivery or (d) sent by registered certified United States mail with return receipt requested, postage prepaid, addressed as follows:

If to Buyer: Western Digital Technologies, Inc.  
20511 Lake Forest Drive  
Lake Forest, CA 92630  
Attn: General Counsel  
Tel: (949) 672-7000  
Fax: [\*]

If to Supplier: Marvell Asia Pte Ltd  
151 Lorong Chuan #02-05  
New Tech Park  
Singapore 556741  
Attn: General Manager  
Tel: (65) 756-1600  
Fax: [\*]

With a copy to: Marvell Semiconductor, Inc.  
700 First Avenue  
Sunnyvale, CA 94089  
Attn: Vice President of Business Affairs  
and General Counsel  
Tel: (408) 222-2500  
Fax: [\*]

Any such notice shall be effective (a) upon receipt if personally delivered, (b) on the date of the facsimile transmission (which date is indicated by the facsimile machine of the party) if sent by facsimile and confirmed by mail, (c) on the first business day if sent by a nationally recognized overnight courier or overnight mail that guarantees overnight delivery and (d) on the third business day following the date of mailing if sent by registered or certified mail. Each party may change the address to which notices are to be delivered by giving notice as provided in this section.

## 21. GENERAL PROVISIONS

21.1 Subject to the confidentiality and intellectual property provisions contained herein, neither this Agreement nor any activities hereunder will impair any right of Supplier or Buyer to design, develop, manufacture, market, service, or otherwise deal in, directly or indirectly, products or services including those which are competitive with those offered by Supplier or Buyer.

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- 21.2 This Agreement may be modified only by a written amendment signed by authorized representatives of the Buyer and the Supplier.
- 21.3 All obligations and duties which by their nature survive the expiration or termination of this Agreement shall remain in effect beyond any such expiration or termination.
- 21.4 Except for the obligation to pay any monetary sums due, neither party shall be responsible for failure to fulfill its obligations under this Agreement due to fire, flood, war or other such cause beyond its control and without its fault or negligence provided it promptly notifies the other party.
- 21.5 Neither party shall assign this Agreement or any rights hereunder without the prior written consent of the other party, except that Supplier's rights to payments under the Agreement are freely assignable. In the event that Buyer merges with or into, or is acquired by, another entity such that Buyer is not the surviving entity of such merger or acquisition (the "Successor Entity"), the rights and obligations of Buyer under this Agreement shall automatically become the rights and obligations of the Successor Entity. A sale by Buyer of all or substantially all of its assets to a third party shall be deemed to be a merger with or into, or an acquisition by, such party for purposes of this provision. In the event any Successor Entity is unable or unwilling to assume the rights and obligations of this Agreement, then such Successor Entity shall immediately [\*].
- 21.6 The waiver by either party of an instance of the other party's noncompliance with any obligation or responsibility herein shall not be deemed a waiver of subsequent instances or of either party's remedies for such noncompliance.
- 21.7 Each party will comply with all applicable federal, state and local laws, regulations and ordinances including, but not limited to, the regulations of the U.S. Government relating to the export or re-export of machines, commodities, software and technical data insofar as they relate to the activities under this agreement. Buyer agrees that machines, commodities, software and technical data provided under this Agreement may be subject to restrictions under the export control laws and regulations of the United States of America, including, but not limited to, the U.S. Export Administration act and the U.S. Export Administration Regulations. Buyer hereby agrees that neither machines, commodities, software or technical data provided by Supplier under this Agreement, nor the direct product thereof, is intended to be shipped, directly or indirectly, to prohibited countries or nationals thereof. Buyer agrees it is responsible for obtaining required government documents and approvals to export any machine, commodity, software or technical data.

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21.8 This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which taken together shall constitute one and the same instrument. Facsimile signatures shall be deemed to be originals.

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SUPPLIER

Marvell Semiconductor, Inc.  
700 First Avenue  
Sunnyvale, CA 94089

By: /s/ Sehat Sutardja

-----  
Dr. SEHAT SUTARDJA,  
PRESIDENT and CEO

Marvell Asia Pte Ltd  
151 Lorong Chuan #02-05  
Singapore 556741.

By: /s/ Dr. H. Kuong

-----  
Dr. H. KUONG,  
GENERAL MANAGER

BUYER

Western Digital Technologies, Inc.  
20511 Lake Forest Drive  
Lake Forest, CA 92630

By: /s/ WILLIAM JOHNS

-----  
Title: VP Worldwide Matls.  
-----

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EXHIBIT A

PRODUCT PRICES

[\*]

[\*]

[\*]

[\*]

[\*]

[\*]

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EXHIBIT B

TIME PERIOD	[*]	COMMENT
-----	---	-----
July 02	[*]	Deliveries starting July 15th
August 02	[*]	Actual quantity needed
September 02	[*]	Actual quantity needed
Q3 TOTAL	[*]	
October 02	[*]	Finalize by July 1st
November 02	[*]	Finalize by August 1st
December 02	[*]	Finalize by September 1st
Q4 TOTAL	[*]	
2003 QUARTERLY [*]	[*]	[*], Finalize January by October 1st



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[WESTERN DIGITAL LOGO] [MARVELL LOGO]

[\*]  
Statement of Quality

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[\*]

[\*]

STATEMENT OF QUALITY

Page 1 of 5

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[WESTERN DIGITAL LOGO] [MARVELL LOGO]

[\*]  
Statement of Quality

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[\*] STATEMENT OF QUALITY (REVISION 1.0)

This Statement of Quality (this "SoQ") is agreed to as of June 24, 2002 by and between Western Digital TECHNOLOGIES ("WD") and Marvell asia pte ltd ("MAPL").

1. PURPOSE

The purpose of this document is to specify the quality and reliability requirements for the [\*] and to document the processes and procedures MAPL shall employ to attain those requirements.

2. OVERVIEW OF [\*] PROGRAM

[\*] is the first generation of a family [\*]. The intent of [\*] and follow-on versions is to take advantage of cost reduction opportunities. The [\*] is targeted for use in the WD [\*] line of hard disk drive products.

2.1 Description of [\*]

[\*] is an [\*] product for WD that integrates MAPL's proven technology cores. [\*] wafer fabrication uses the [\*] process technology [\*] and is packaged in [\*] body outline [\*] package. Approximate die size for [\*] is [\*].

2.2 Description of [\*] Manufacturing Flow

Wafer fab is [\*]. Wafer probe is performed at [\*]. Package assembly subcontractor is [\*] Final test [\*]. Parts are finished, packed and shipped from [\*].

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[WESTERN DIGITAL LOGO] [MARVELL LOGO]

[\*]  
Statement of Quality

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### 3. QUALITY REQUIREMENTS

It is central to WD's mission to provide best-in-class quality and reliability product to our customers. Consequently, components used in WD HDD products must meet stringent levels of quality and reliability in terms of expected fitness-for-use and failure during PCBA assembly and test, HDD assembly and test, end customer integration, and field use. These requirements are subject to review and change as the business situation warrants, but no less than annually. MAPL understands and agrees that failure to meet these quality levels will require immediate and resolute actions to rectify in the most expeditious manner possible [\*]. WD will cooperate fully in these efforts. It is not WD's intention to reject component shipments based upon occasional and marginal failure to meet these quality levels. However, sustained quality excursions and/or inability to correct quality problems to meet these requirements will affect WD's ability to integrate said components and may be cause for business interruptions, such as stop-ship orders (MSSO).

Current requirements as stated below should be viewed as minimum acceptable criteria for[\*]:

- 3.1 [\*]
- 3.2 [\*]
- 3.3 [\*]
- 3.4 [\*]
- 3.5 [\*]
- 3.6 [\*]

### 4. COMPONENT QUALIFICATION

WD has a comprehensive process in place to qualify components for integration into our products. This process involves Engineering teams in the US and in our factories and our suppliers, and concludes when the component is listed unfettered on our Approved Vendor List (AVL). It must be demonstrated that the component in question can achieve the quality requirements listed above through direct measurement as well as artifices such as accelerated life tests. The [\*] attached hereto as Exhibit 1 lists related actions required of the supplier in detail. It is incumbent upon both parties to schedule this work such that the successful conclusion of these tests occurs well before WD builds and ships products containing said components.

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[WESTERN DIGITAL LOGO] [MARVELL LOGO]

[\*]  
Statement of Quality

4.1 [\*] qualification summary

Activity -----	[*] ---	Who -----	ECD ---
Wafer-level reliability 1st wafer lot	[*]	Marv	
2nd wafer lot		Marv	
3rd wafer lot		Marv	
Device construction analysis	[*]	WD Marv	
High temperature operating life	[*]	Marv	
[*]		Marv	
[*]		Marv	
[*]		Marv	
High temp storage [*]	[*]	Marv	
Corner lot characterization	[*]	Marv	
Rogue lot screening program	[*]	Marv	
CPCP reporting program	[*]	Marv	
Latch-up sensitivity	[*]	Marv	
ESD sensitivity	[*]	Marv	
JEDEC precondition	[*]	Marv	
Pkg thermal cycle [*]	[*]	Marv	
Pkg pressure cooker ([*])	[*]	Marv	
Pkg construction analysis	[*]	Marv	

5. QUALITY PROCESSES

Western Digital firmly believes that high quality products germinate from high quality processes. In order to assure visibility into the quality of our suppliers' processes, we request certain manufacturing data be made available on a routine basis. This data is often expressed as process capability measurements, wherein [\*] is viewed as a minimum to assure consistent product attributes. The following is a list of typical critical manufacturing parameters for [\*]:

Parameter -----	Frequency -----
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

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[WESTERN DIGITAL LOGO] [MARVELL LOGO]

[\*]  
Statement of Quality

5. Quality Processes (con't)

[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]  
[\*] [\*]

6. SUPPLIER QUALITY MEASUREMENT

Suppliers of significant components are measured by WD in a formal ongoing process, culminating in the Quarterly Business Review (QBR) meeting. [\*]% of the QBR rating is the Supplier Quality Rating (SQR), a method of rating and ranking suppliers according to achieving the required quality and reliability metrics. The most heavily-weighted elements of the SQR are [\*].

7. SIGNATURES FOR STATEMENT OF QUALITY

WESTERN DIGITAL TECHNOLOGIES

MARVELL ASIA PTE LTD

/s/ DOUGLAS BLACKE

/s/ DR. H. KUONG

-----  
Douglas Blacke  
Sr. Director, Supplier Engineering

-----  
Dr. H. Kuong  
General Manager

/s/ MARTY FINKBEINER

-----  
Marty Finkbeiner  
Vice President, HDS Quality

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

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

- the Quarterly Report of the Company on Form 10-Q for the period ended March 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2003

/s/ Matthew E. Massengill

\_\_\_\_\_  
Matthew E. Massengill  
Chief Executive Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

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

- the Quarterly Report of the Company on Form 10-Q for the period ended March 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2003

/s/ Scott Mercer

\_\_\_\_\_  
D. Scott Mercer  
Chief Financial Officer

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.