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

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FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 27, 1997.

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 1-8703

WESTERN DIGITAL CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

95-2647125
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

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

92618
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE: (714) 932-5000

N/A

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 [X] No [ ]

Number of shares of common stock outstanding, as of January 27, 1998, was
87,451,488.

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## WESTERN DIGITAL CORPORATION

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## WESTERN DIGITAL CORPORATION

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

	THREE-MONTH PERIOD ENDED	
	DECEMBER 28, 1996	DECEMBER 27, 1997
Revenues, net.....	\$ 1,118,647	\$ 969,564
Costs and expenses:		
Cost of revenues.....	955,258	1,025,112
Research and development.....	36,001	44,472
Selling, general and administrative.....	55,553	47,178
Total costs and expenses.....	1,046,812	1,116,762
Operating income (loss).....	71,835	(147,198)
Interest and other income.....	3,729	2,015
Income (loss) before income taxes.....	75,564	(145,183)
Provision for income taxes.....	11,335	--
Net income (loss).....	\$ 64,229	\$ (145,183)
Earnings (loss) per common share (Note 2):		
Basic.....	\$ .73	\$ (1.66)
Diluted.....	\$ .68	\$ (1.66)
Common shares used in computing per share amounts (Note 2):		
Basic.....	87,950	87,319
Diluted.....	94,760	87,319

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

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

	SIX-MONTH PERIOD ENDED	
	DECEMBER 28, 1996	DECEMBER 27, 1997
Revenues, net.....	\$ 2,001,762	\$ 2,059,728
Costs and expenses:		
Cost of revenues.....	1,725,484	1,954,217
Research and development.....	70,261	86,774
Selling, general and administrative.....	98,413	93,872
Total costs and expenses.....	1,894,158	2,134,863
Operating income (loss).....	107,604	(75,135)
Interest and other income.....	6,640	4,603
Income (loss) before income taxes.....	114,244	(70,532)
Provision for income taxes.....	17,137	11,944
Net income (loss).....	\$ 97,107	\$ (82,476)
Earnings (loss) per common share (Note 2):		
Basic.....	\$ 1.11	\$ (.95)
Diluted.....	\$ 1.04	\$ (.95)
Common shares used in computing per share amounts (Note 2):		
Basic.....	87,720	87,030
Diluted.....	93,682	87,030

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

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

ASSETS

	JUNE 28, 1997	DECEMBER 27, 1997
	-----	-----
Current assets:		
Cash and cash equivalents (Note 8).....	\$ 208,276	\$ 119,339
Accounts receivable, less allowance for doubtful accounts of \$11,706 at June 28, 1997 and \$13,491 at December 27, 1997.....	545,552	480,368
Inventories (Note 3).....	224,474	285,404
Prepaid expenses and other assets.....	39,593	38,598
	-----	-----
Total current assets.....	1,017,895	923,709
Property and equipment at cost, net.....	247,895	316,841
Intangible and other assets, net.....	41,332	30,886
	-----	-----
Total assets.....	\$1,307,122	\$1,271,436
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 417,984	\$ 394,515
Accrued compensation.....	59,227	30,379
Accrued expenses.....	176,494	271,140
	-----	-----
Total current liabilities.....	653,705	696,034
Deferred income taxes.....	33,430	34,542
Commitments and contingent liabilities (Notes 7 and 8)		
Subsequent event (Note 6)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; Authorized: 5,000 shares; Outstanding: None.....	--	--
Common stock, \$0.01 par value; Authorized: 225,000 shares; Issued: 101,332 shares at June 29, 1997 and at December 27, 1997.....	1,013	1,013
Additional paid-in capital.....	356,654	348,270
Retained earnings.....	488,066	405,590
Treasury stock -- common stock at cost; 15,436 shares at June 28, 1997 and 13,948 shares at December 27, 1997 (Note 4).....	(225,746)	(214,013)
	-----	-----
Total shareholders' equity.....	619,987	540,860
	-----	-----
Total liabilities and shareholders' equity.....	\$1,307,122	\$1,271,436
	=====	=====

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

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

	SIX-MONTH PERIOD ENDED	
	DECEMBER 28, 1996	DECEMBER 27, 1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss).....	\$ 97,107	\$ (82,476)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	28,323	47,385
Changes in assets and liabilities:		
Accounts receivable.....	(84,721)	65,184
Inventories.....	(13,118)	(60,930)
Prepaid expenses and other assets.....	(4,663)	995
Accounts payable, accrued compensation and accrued expenses.....	136,358	42,329
Other assets.....	500	406
Deferred income taxes.....	(213)	1,112
Net cash provided by operating activities.....	159,573	14,005
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net.....	(69,566)	(111,791)
Decrease in short-term investments.....	36,598	--
Decrease in other assets.....	4,503	5,500
Net cash used for investing activities.....	(28,465)	(106,291)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Common stock repurchase program.....	(49,840)	(12,525)
Exercise of stock options, including tax benefit.....	5,758	8,431
Proceeds from ESPP shares issued.....	4,378	7,443
Net cash provided by (used for) financing activities.....	(39,704)	3,349
Net increase (decrease) in cash and cash equivalents.....	91,404	(88,937)
Cash and cash equivalents, beginning of period.....	182,565	208,276
Cash and cash equivalents, end of period.....	\$273,969	\$ 119,339
	=====	=====
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid during the period for income taxes.....	\$ 4,996	\$ 12,308

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

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The accounting policies followed by the Company are set forth in Note 1 of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 28, 1997.
- Effective December 27, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This statement replaces the previously reported primary and fully diluted earnings (loss) per share with basic and diluted earnings (loss) per share. Unlike primary earnings (loss) per share, basic earnings (loss) per share excludes any diluted effects of options. Diluted earnings (loss) per share is very similar to the previously reported fully diluted earnings (loss) per share. All earnings (loss) per share amounts have been restated to conform to the SFAS No. 128 requirements.

The following table illustrates the computation of basic and diluted earnings (loss) per share:

	THREE-MONTH PERIOD ENDED		SIX-MONTH PERIOD ENDED	
	DECEMBER 28, 1996	DECEMBER 27, 1997	DECEMBER 28, 1996	DECEMBER 27, 1997
Numerator:				
Numerator for basic and diluted earnings (loss) per share -- net income (loss).....	\$ 64,229 =====	\$ (145,183) =====	\$ 97,107 =====	\$(82,476) =====
Denominator:				
Denominator for basic earnings (loss) per share -- weighted average number of common shares outstanding during the period.....	87,950	87,319	87,720	87,030
Incremental common shares attributable to exercise of outstanding options, put options and ESPP contributions.....	6,810 -----	-- -----	5,962 -----	-- -----
Denominator for diluted earnings (loss) per share...	94,760 =====	87,319 =====	93,682 =====	87,030 =====
Basic earnings (loss) per share.....	\$ .73 =====	\$ (1.66) =====	\$ 1.11 =====	\$ (.95) =====
Diluted earnings (loss) per share.....	\$ .68 =====	\$ (1.66) =====	\$ 1.04 =====	\$ (.95) =====

The computation of diluted loss per share for the three-month and six-month periods ended December 27, 1997 excluded the effect of incremental common shares attributable to the exercise of outstanding common stock options, put options and ESPP contributions because their effect was antidilutive. Substantially all options to purchase shares of common stock were included in the computation of diluted earnings per share for the three-month and six-month periods ended December 28, 1996.

- Inventories comprised the following:

	JUNE 28, 1997	DECEMBER 27, 1997
	-----	-----
	(IN THOUSANDS)	
Finished goods.....	\$137,762	\$169,922
Work in process.....	56,352	45,718
Raw materials and component parts.....	30,360	69,764
	-----	-----
	\$224,474	\$285,404

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## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. During the six months ended December 27, 1997, approximately 786,000 and 702,000 shares of common stock were distributed in connection with the Employee Stock Purchase Plan ("ESPP") and common stock option exercises, respectively, for \$13.5 million.
5. In the opinion of management, all adjustments necessary to fairly state the consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 28, 1997.
6. On January 28, 1998, the Company replaced its then existing revolving credit facility with a secured revolving credit and term loan facility ("Senior Bank Facility"). The Senior Bank Facility provides the Company with a \$200 million revolving credit line and a \$50 million term loan, both of which expire in January 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either Libor plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility requires the Company to maintain certain financial ratios, restricts the payment of dividends and contains a number of other restrictive covenants. As of February 5, 1998, the \$50 million term loan was funded but there were no borrowings under the revolving credit line.
7. Since early December 1997, a number of securities class action lawsuits have been filed against the Company and certain of its officers and directors in United States District Court for the Central District of California. The plaintiffs in these actions are persons who purchased shares of the Company's common stock on the open market during calendar 1996 and 1997, and who are asserting claims for monetary damages in an unspecified amount on behalf of themselves and other similarly situated purchasers of the Company's common stock. These actions followed the Company's announcement on December 2, 1997 of its plans to reduce production, accelerate its transition to MR head technology, exit the 3-inch drive business, and take associated accounting charges. The complaints allege essentially that during calendar 1996 and 1997 and before the December 2, 1997 announcement, the Company and its officers knew the Company was experiencing and would continue to experience difficulties with its transition from thin film to MR head technology which would subject the Company to, among other things, low-end pricing pressures and the risk of obsolete inventory. The complaints further allege that nonetheless the Company made false and misleading statements concerning the outlook for the Company's operations and earnings and issued financial statements that were false and misleading in various ways, including improper deferral of obsolete inventory write-downs. The complaints further assert that the Company's officers made the alleged misleading statements in order to keep the market price of the Company's stock at artificially high levels for various reasons, including to facilitate the sale of their own shares and to deter potential acquirors. The Company believes that additional suits may be filed containing similar allegations. The Company's directors and officers liability insurance carriers have been notified of the claims that have been received. Although the Company has had only a limited time to review these complaints, it believes that it has meritorious defenses to the claims and intends to defend itself vigorously. However, such litigation could result in substantial costs and a diversion of resources and management's attention.
8. During the third and fourth quarters of fiscal 1998, the Company is obligated to settle certain put option arrangements entered into in connection with its open market stock repurchase program. Under this program, the Company, since February 1995, has spent approximately \$300 million in connection with the repurchase of approximately 22.2 million shares of its common stock at an average price of \$13.50 per share. The Company has the option to settle these obligations in cash or by issuing additional common

## WESTERN DIGITAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

stock, which would have a dilutive effect upon existing shareholders. The amount of the settlements will be based upon the value of the Company's common stock at the time of settlement, and the decision whether to make these settlements in cash or stock, or a combination of both, will be made based upon prevailing market conditions and other factors at the time of settlement. At the market price for the Company's common stock on February 3, 1998, the total cash payment, if elected, would have been approximately \$20.7 million. Pending settlement, approximately \$26.4 million of the Company's cash was restricted at December 27, 1997 to secure the Company's obligations under these arrangements.

THE INFORMATION INCLUDED IN THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS REPORT, THE WORDS "ANTICIPATES," "BELIEVES," "EXPECTS," "INTENDS," "FORECASTS," "PLANS," "FUTURE," "STRATEGY," OR WORDS OF SIMILAR IMPORT ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. OTHER STATEMENTS OF THE COMPANY'S PLANS AND OBJECTIVES MAY ALSO BE CONSIDERED TO BE FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD-LOOKING STATEMENTS. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLISH REVISED FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY TO ADVISE INTERESTED PARTIES OF CERTAIN RISKS AND OTHER FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS AND OPERATING RESULTS, INCLUDING THE DISCLOSURES MADE UNDER THE CAPTION "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THIS REPORT, AS WELL AS THE COMPANY'S OTHER PERIODIC REPORTS ON FORMS 10-K, 10-Q AND 8-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

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

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

### RECENT DEVELOPMENTS

Competitive market conditions in the hard drive industry, including unusually severe pricing pressure, sustained oversupply, and increasing availability of MR head products from competitors, prompted the Company in the second quarter of fiscal 1998 to initiate a series of actions designed to reduce its exposure to these competitive conditions and to sharpen the Company's focus and resources on its desktop and enterprise storage product lines. These actions included a reduction in the planned production of desktop hard drives, an acceleration of the transition from thin film recording head technology to MR head technology, and termination of the Company's 3-inch hard drive product line targeted at the mobile PC marketplace. Primarily as a result of these actions, the Company recorded \$148 million of special charges in the second quarter of fiscal 1998. The special charges include estimated component cancellation charges, inventory and other asset write-downs, costs incurred during the quarter on terminated mobile PC engineering programs, and other estimated incremental costs related to the production, sale, and accelerated wind-down of thin film and ramp-up of MR products. Of this amount, approximately \$40 million consists of non-cash items, approximately \$35 million utilized cash in the second quarter of fiscal 1998, and the majority of the balance will require cash expenditures during the third and fourth quarters of fiscal 1998. The special charges are based upon a number of estimates and assumptions, and although these estimates and assumptions were based upon the best information available to the Company at the time, the actual costs incurred by the Company in connection with these actions may exceed the charges recorded.

## RESULTS OF OPERATIONS

The following table expresses selected amounts obtained from the Company's consolidated statements of operations as a percentage of net revenues:

	THREE-MONTH ENDED			SIX-MONTHS ENDED	
	DECEMBER 28, 1996	SEPTEMBER 27, 1997	DECEMBER 27, 1997	DECEMBER 28, 1996	DECEMBER 27, 1997
Revenues, net.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues.....	85.4%	85.2%	105.7%	86.2%	94.9%
Gross profit margin.....	14.6%	14.8%	(5.7)%	13.8%	5.1%
Research and development expense.....	3.2%	3.9%	4.6%	3.5%	4.2%
Selling, general and administrative expense.....	5.0%	4.3%	4.9%	4.9%	4.5%
Operating income (loss).....	6.4%	6.6%	(15.2)%	5.4%	(3.6)%
Interest and other income.....	.3%	.2%	.2%	.3%	.2%
Income (loss) before income taxes.....	6.7%	6.8%	(15.0)%	5.7%	(3.4)%
Provision for income taxes.....	1.0%	1.0%	--%	.8%	.6%
Net income (loss).....	5.7%	5.8%	(15.0)%	4.9%	(4.0)%
	=====	=====	=====	=====	=====

Consolidated revenues were \$970 million in the second quarter of 1998, a decrease of 13% and 11% from the second quarter of the prior year and the immediately preceding quarter, respectively. Consolidated revenues were \$2.1 billion in the first six months of 1998, up 3% from the corresponding period of 1997. The decline in revenues in the current quarter stemmed from 5% and 8% reductions in hard drive unit shipments as compared to the corresponding quarter of the prior year and the immediately preceding quarter, respectively. The increase in revenues in the first six months of 1998 over the corresponding period of the prior year resulted from an overall 10% increase in hard drive unit shipments. An intensely competitive hard drive business environment, particularly during the second quarter of 1998, resulted in reductions in the average selling prices of hard drive products which in turn affected consolidated revenues during the three and six-month periods ended December 27, 1997.

The reduction in gross profit margin from the immediately preceding quarter and the corresponding period of 1997 was primarily related to three factors. First, \$148 million of special charges were recorded in the second quarter of 1998, primarily to cost of sales. See "Recent Developments." Second, unusually severe competitive pricing pressures were experienced in the desktop storage market during the second quarter of 1998. Finally, the Company experienced higher manufacturing costs associated with extending the life of thin film head technology in desktop storage products. Partially offsetting this reduction in gross profit margin were incremental sales of the Company's enterprise storage products, which have higher average gross profit margins than the Company's desktop storage products.

Research and development ("R&D") expense for the current quarter was \$44.5 million, an increase of \$8.5 million and \$2.2 million over the second quarter of the prior year and the immediately preceding quarter, respectively. R&D expense for the first six months of 1998 was \$86.8 million, an increase of \$16.5 million over the corresponding period of the prior year. The increases in absolute dollars spent over the corresponding periods of the prior year and the immediately preceding quarter are primarily associated with higher expenditures to support the development of desktop hard drives. The increases in R&D expense as a percentage of revenues in the current quarter over the second quarter of 1997 and the immediately preceding quarter are primarily the result of the lower revenue base.

Selling, general and administrative ("SG&A") expense for the second quarter of 1998 was \$47.2 million, a decrease of \$8.4 million from the corresponding quarter of 1997. SG&A expense for the first six months of 1998 was \$93.8 million, a decrease of \$4.6 million from the corresponding period of the prior year. The decrease from the second quarter and the first six months of 1997 is primarily the result of lower expenses for the Company's pay-for-performance and profit sharing plans.



Net interest and other income for the current quarter was \$2.0 million, a decrease of \$1.7 million and \$.6 million from the second quarter of the prior year and the immediately preceding quarter, respectively. Interest and other income for the first six months of 1998 was \$4.6 million, a decrease of \$2.0 million from the corresponding period of the prior year. The decreases are primarily the result of lower average cash and cash equivalent balances in the current periods as compared to corresponding periods of the prior year and the immediately preceding quarter.

The Company's effective tax rate for the three and six-month periods ended December 28, 1996 results primarily from the earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared with United States statutory rates and changes in the deferred tax asset valuation allowance. The provision for income taxes recorded in the first half of 1998 results primarily from positive earnings at certain of the Company's international subsidiaries.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 27, 1997, the Company had \$119.3 million in cash and cash equivalents as compared to \$208.3 million at June 28, 1997. Net cash provided by operating activities was \$14.0 million for the six-month period ended December 27, 1997, compared to \$159.6 million for the six-month period ended December 28, 1996. Cash flows from depreciation and amortization, lower accounts receivable balances, and an increase in total operating liabilities were partially offset by cash used to fund higher inventory balances and the net loss. Another significant use of cash during the first six months of 1998 was capital expenditures of \$111.8 million, which were incurred primarily in connection with the transition to desktop and enterprise hard drives featuring MR head technology and increased capacity to support future production of hard drives and related components.

The Company's previously existing \$150 million revolving credit line, which had an outstanding balance of \$24 million drawn on December 29, 1997, was repaid and terminated on January 28, 1998. To replace this \$150 million facility, the Company entered into a credit facility ("Senior Bank Facility") on January 28, 1998, pursuant to which BankBoston, N.A. and other lending institutions are providing a \$200 million revolving credit line and a \$50 million term loan, both of which expire in January 2001. The Senior Bank Facility is secured by the Company's accounts receivable, inventory, 66% of its stock in its foreign subsidiaries and the other assets (excluding real property) of the Company. At the option of the Company, borrowings bear interest at either LIBOR plus a margin determined by a total debt funded ratio or a base rate, with option periods of one to six months. The Senior Bank Facility requires the Company to maintain certain financial ratios, restricts the payment of dividends and contains a number of other restrictive covenants. As of the date hereof, the \$50 million term loan was funded but there were no borrowings under the revolving credit line. The Senior Bank Facility is intended to meet short-term working capital requirements which may arise from time to time.

On December 29, 1997, the Company purchased approximately 34 acres of land in Irvine, California for approximately \$22 million. The Company is exploring various financing alternatives for construction of a new corporate headquarters on this site. The new headquarters facility is not expected to materially increase the Company's occupancy costs. However, there can be no assurance that the Company will be successful in entering into a financing arrangement for this property on terms that will be satisfactory to the Company and

other alternatives available to the Company upon expiration of its current headquarters lease could be more costly.

During the third and fourth quarters of 1998, the Company is obligated to settle certain put option arrangements entered into in connection with its open market stock repurchase program. Under this program, the Company, since February 1995, has spent approximately \$300 million in connection with the repurchase of approximately 22.2 million shares of its common stock at an average price of \$13.50 per share. The Company has the option to settle these obligations in cash or by issuing additional common stock, which would have a dilutive effect upon existing shareholders. The amount of the settlements will be based upon the value of the Company's common stock at the time of settlement, and the decision whether to make these settlements in cash or stock, or a combination of both, will be made based upon prevailing market conditions and other factors at the time of settlement. At the market price for the Company's common stock on February 3, 1998, the total cash payment, if elected, would have been approximately \$20.7 million. Pending settlement, approximately \$26.4 million of the Company's cash was restricted at December 27, 1997 to secure the Company's obligations under these arrangements.

The Company believes that its current cash balances combined with cash flow from operations and the Senior Bank Facility will be sufficient to meet its working capital needs for the foreseeable future. However, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Certain Factors Affecting Western Digital Corporation and/or the Hard Drive Industry."

#### NEW ACCOUNTING PRONOUNCEMENTS

Effective December 28, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This statement replaces the previously reported primary and fully diluted earnings (loss) per share with basic and diluted earnings (loss) per share. Unlike primary earnings (loss) per share, basic earnings (loss) per share excludes any dilutive effects of options and convertible securities. Diluted earnings (loss) per share is very similar to the previously reported fully diluted earnings (loss) per share. All earnings (loss) per share amounts for all periods have been restated to conform to the SFAS No. 128 requirements.

#### YEAR 2000

Many existing software programs use only two digits to identify the year in the date field. If such programs are not corrected, date data concerning the Year 2000 could cause many computer applications to fail, lock-up or generate erroneous results. As storage devices, the Company's hard drives are transparent to Year 2000 requirements and can be deemed Year 2000 compliant when used in accordance with Company product documentation and provided that all hardware, firmware, middleware and software used in combination with the hard drive exchange accurate data therewith.

The Company has committed personnel and resources to resolve potential Year 2000 issues, both internally and externally (with respect to the Company's suppliers and customers). The Company is in the process of identifying and assessing its mission-critical systems related to the Year 2000. Although the Company plans to address Year 2000 issues with respect to the Company's mission-critical internal systems in sufficient time prior to the century rollover, there can be no assurance that there will not be interruption of operations or other limitations of system functionality, or that the Company will not incur substantial costs to avoid such occurrences.

The Company is currently assessing the cost to remediate its Year 2000 issues. Although the actual cost to remediate these issues is not yet fully known, based upon information to date, it is not expected that the remediation will have a material impact on the Company's financial condition or operating results.

**CERTAIN FACTORS AFFECTING WESTERN DIGITAL CORPORATION AND/OR THE DISK DRIVE INDUSTRY**

Highly Competitive Industry. The desktop portion of the hard drive industry consists of many competitors of various sizes and financial resources. Although price competition and price erosion were not as severe in 1997 as in some previous years, the desktop hard drive industry is currently experiencing a period of sustained oversupply and unusually severe pricing pressures which have resulted in price competition and price erosion that the Company expects to continue for the foreseeable future.

During 1996 and 1997, the Company significantly increased its market share in the desktop hard drive market, but some of these market share gains eroded in the second quarter of 1998, primarily due to competitive conditions in the disk drive industry (with resulting cut backs in production) and the timing of the Company's transition from thin film to magneto-resistive ("MR") head technology. There can be no assurance that the Company will be able to recover recent market share losses or increase its market share beyond historical levels. Maxtor and Fujitsu have joined Seagate, Quantum and IBM as major competitors in the data storage business, and Fujitsu has already gained significant market share in the desktop market as a result of its aggressive pricing strategy and competitive products. Maxtor has also recently gained market share due to several factors, including improved product offerings. The current intense competitive conditions in this market make it difficult to forecast near-term operating results. This competitive environment has adversely affected the Company's operating results for the first half of 1998, and the Company expects these conditions to continue for at least the remainder of 1998. See "Recent Developments."

The enterprise portion of the hard drive market is more concentrated than the desktop portion, with the largest competitor, Seagate, having a market share in excess of 50% in recent years. The Company entered this market in 1997 and competes with Seagate, Quantum, IBM and Fujitsu. Because the number of competitors in this market has increased, the Company expects that price competition in the enterprise market will increase. The Company's continued success in the enterprise hard drive market is heavily dependent on the successful development, timely introduction and market acceptance of new products, and failure to achieve such success could adversely affect the Company's financial condition or operating results.

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

Rapid Technological Change and Product Development. The demands of hard drive customers for greater storage capacity and higher performance have led to short product life cycles, which require the Company to constantly develop and introduce new drive products on a cost-effective and timely basis. The Company's expenditure of research and development funds to support rapid technological change depends upon its revenues and profitability, and reductions in such expenditures could impair the Company's ability to innovate and compete.

The Company experiences fluctuations in manufacturing yields that can materially affect the Company's operations, particularly in the start-up phase of new products or new manufacturing processes, and also at the end of a technology's life cycle, when refinements designed to reach the product's technical limits can result in tighter manufacturing tolerances. With the continued pressures to shorten the time required to introduce new products, the Company must accelerate production learning curves to shorten the time to achieve acceptable manufacturing yields and costs. The Company's future is therefore dependent upon its ability to develop new products, qualify these new products with its customers, successfully introduce these products to the market

on a timely basis and commence volume production to meet customer demands. If not carefully planned and executed, the transition to new products may adversely affect sales of existing products and increase risk of inventory obsolescence. A delay in the introduction or production of more cost-effective and/or more advanced products also can result in lower sales and lower gross margins. Because of rapid technological changes, the Company anticipates that sales of older products will decline as in the past and that sales of new products will continue to account for a significant portion of its sales in the future. Failure of the Company to execute its strategy of achieving time-to-market in sufficient volume with new products, or any delay in the introduction of advanced and cost-effective products, could result in significantly lower revenue and gross margins. Some of these factors have adversely affected the Company in connection with the maturation of and transition from thin film recording head technology. For a discussion of this transition from thin film recording head technology to MR head technology and associated special charges in the second quarter of 1998, see "Recent Developments."

Advances in magnetic, optical or other technologies, or the development of entirely new technologies, could result in the creation of competitive products that have better performance and/or lower prices than the Company's products. For example, the next generation of head technology, known as "Giant MR," has already been introduced on a limited basis by IBM. Additionally, companies such as TeraStor and Seagate are currently developing optically-assisted recording technologies. The initial products from such companies are expected to be high capacity and high price, although cost-effective per gigabyte. The optically-assisted recording approaches used by these two companies are different at this time and have created some short-term confusion in the industry. Accordingly, the Company's strategy is to view optically-assisted recording as a potentially valid solution at some point in time, but to assume that the hard drive technologies currently in use will serve the Company for the foreseeable future. However, if the Company's assumption proves to be wrong, the Company could be late in its integration of optically-assisted recording technology, which could have an adverse effect on the Company's financial condition or operating results.

Development and Production of Drives with MR Recording Heads. The majority of the Company's hard drive products currently utilize conventional thin film or metal-in-gap ("MIG") inductive head technologies. MR heads, which enable higher capacity per hard drive than conventional thin film or MIG inductive heads, have replaced thin film and MIG inductive heads as the leading recording head technology. Several of the Company's major competitors are substantially ahead of the Company in incorporating MR head technology into some of their current products and, with higher capacity drives using MR heads, some of the Company's competitors achieved time-to-market leadership with certain MR products. In September 1997, the Company commenced volume production of its first desktop drive product incorporating MR head technology, a 2.1 GB per platter drive, and with that introduction, the Company regained time-to-market leadership at that capacity point. Additionally, the Company commenced volume production in December 1997 of the new low-profile 9.1 GB enterprise drive incorporating MR head technology. The Company and IBM are currently the industry's sole suppliers of low-profile 9.1 GB enterprise drives. As with most new products, the Company anticipates that the new MR-based products may have lower initial manufacturing yields and higher initial component costs than some more mature products. The Company's ramp to volume production of MR head products has been successful to date. However, the Company plans to have MR heads in 40% of products shipped by the end of the third quarter of 1998, and in excess of 80% of products shipped by the end of the fourth quarter of 1998. This plan depends upon continued success in MR head technology throughout the full production process and no assurance can be given that these goals will be achieved. Failure of the Company to successfully execute the transition to MR head technology in a timely manner and/or in sufficient volume during 1998 could cause further erosion of the Company's market share and have an adverse effect on the Company's financial condition or operating results.

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

the Company's products, which could have an adverse effect on the Company's financial condition or operating results.

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

**Customer Concentration and Changing Customer Models.** High volume customers for hard drives are concentrated among a small number of OEMs, distributors and retailers. Although the Company believes its relationships with key customers such as these are generally very good, the concentration of sales to a relatively small number of major customers represents a business risk that loss of one or more accounts could adversely affect the Company's financial condition or operating results. During each of 1995 and 1996, sales to Gateway 2000 accounted for 11% of revenues. During 1997, sales to IBM accounted for 13% of revenues. For the six months ended December 27, 1997, sales to Compaq and IBM accounted for 14% and 12% of revenues, respectively. The Company's customers are generally not obligated to purchase any minimum volume and are generally able to terminate their relationship with the Company at will. If any such change in purchase volume or customer relationships resulted in decreased demand for the Company's drives, whether by loss of or delays in orders, the Company's financial condition or operating results could be adversely affected.

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

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

**Dependence on Suppliers of Components.** The Company is dependent on qualified suppliers for components, including recording heads, head stack assemblies, media and integrated circuits. A number of the components used by the Company are available from a single or limited number of outside suppliers. Some of these materials may periodically be in short supply, and the Company has, on occasion, experienced temporary delays or increased costs in obtaining these materials. As a result, the Company must allow for significant lead times when procuring certain materials and supplies. In addition, cancellation of orders for components due to cut-backs in production precipitated by market oversupply or transition to new products or technologies can result in payment of significant cancellation charges to suppliers. See "Recent Developments." Because the Company is less vertically integrated than its competitors, an extended shortage of required materials and supplies or the failure of key suppliers to meet the Company's quality, yield or production requirements could affect the Company more severely than competitors.

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

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

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

Since early December 1997, a number of securities class action lawsuits have been filed against the Company and certain of its officers and directors in United States District Court for the Central District of California. The plaintiffs in these actions are persons who purchased shares of the Company's common stock on the open market during calendar 1996 and 1997, and who are asserting claims for monetary damages in an unspecified amount on behalf of themselves and other similarly situated purchasers of the Company's common stock. These actions followed the Company's announcement on December 2, 1997 of its plans to reduce production, accelerate its transition to MR head technology, exit the 3-inch drive business, and take associated accounting charges. The complaints allege essentially that during calendar 1996 and 1997 and before the December 2, 1997 announcement, the Company and its officers knew that the Company was experiencing and would continue to experience difficulties with its transition from thin film to MR head technology which would subject the Company to, among other things, low-end pricing pressures and the risk of obsolete inventory. The complaints further allege that nonetheless the Company made false and misleading statements concerning the outlook for the Company's operations and earnings and issued financial statements that were false and misleading in various ways, including improper deferral of obsolete inventory write-downs. The complaints further assert that the Company's officers made the alleged misleading statements in order to keep the market price of the Company's stock at artificially high levels for various reasons, including to facilitate the sale of their own shares and to deter potential acquirors. The Company believes that additional

suits may be filed containing similar allegations. The Company's directors and officers liability insurance carriers have been notified of the claims that have been received. Although the Company has had only a limited time to review these complaints, it believes that it has meritorious defenses to the claims and intends to defend itself vigorously. However, such litigation could result in substantial costs and a diversion of resources and management's attention.

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

**Use of Estimates.** The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities. Such estimates include, but are not limited to, accruals for warranty against product defects, price protection and stock rotation reserves on product sold to resellers, and reserves for excess, obsolete and slow moving inventories. The rapidly changing market conditions in the hard drive industry make it difficult to estimate such accruals and reserves and actual results may differ significantly from the Company's estimates and assumptions, including those used in determining the special charges in the second quarter of 1998 described in "Recent Developments." Differences between actual results and such estimates and assumptions can result in adverse effects on the Company's financial condition or operating results.

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

In addition, certain of the large desktop PC system manufacturers have recently introduced lower cost, lower performance systems principally for the consumer marketplace. These systems have generally been priced below \$1,000 per system and typically contain hard drives with lower capacity. The Company currently participates in this market only to a limited extent, and if this market continues to grow rapidly, the Company will need to develop appropriate lower-cost disk drive products for these systems to avoid losing market share.

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

**Possible Price Volatility of Common Stock.** The market price of the Company's common stock has been, and may continue to be, extremely volatile and may be significantly affected by factors such as actual or anticipated fluctuations in the Company's operating results, announcements of technological innovations, new products introduced by the Company or its competitors, periods of severe pricing pressures, developments with respect to patents or proprietary rights, conditions and trends in the hard drive industry, changes in financial estimates by securities analysts, general market conditions and other factors. In addition, the stock market has experienced extreme price and volume fluctuations that have particularly affected the market price for many high technology companies that have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Company's common stock, and there can be no assurance that the market price of the common stock will not decline. Securities class action litigation suits are often brought against companies following periods of volatility in the market price of their securities, and a number of such suits have been filed against the Company since early December 1997. See

"Legal Proceedings." Any such litigation against the Company could result in substantial costs and a diversion of resources and management's attention.

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

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

Year 2000 Issue. Many existing software programs use only two digits to identify the year in the date field. If such programs are not corrected, date data concerning the Year 2000 could cause many computer applications to fail, lock-up or generate erroneous results. Virtually all companies will be affected by the Year 2000 issue. As storage devices, the Company's hard drives are transparent to Year 2000 requirements and can be deemed Year 2000 compliant when used in accordance with Company product documentation and provided that all hardware, firmware, middleware and software used in combination with the hard drive exchange accurate data therewith.

The Company has committed personnel and resources to resolve potential Year 2000 issues, both internally and externally (with respect to the Company's suppliers and customers). The Company is in the process of identifying and assessing its mission-critical systems related to the Year 2000. Although the Company plans to address Year 2000 issues with respect to the Company's mission-critical internal systems in sufficient time prior to the century rollover, there can be no assurance that there will not be interruption of operations or other limitations of system functionality, or that the Company will not incur substantial costs to avoid such occurrences. Any failure to effectively monitor, implement or improve the Company's internal and external operational, financial, management and technical support systems could have a material adverse effect on the Company's financial condition or operating results.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On May 9, 1997, the Bay Area Air Quality Management District ("District") filed suit against the Company in Santa Clara Superior Court. The complaint alleged that isopropyl alcohol dryers at the Company's Santa Clara Media facility do not comply with the District's emission control requirements and the conditions of the permit issued by the District to the Company for the dryers and sought damages of \$300,000. The Company entered into a Settlement Agreement with the District pursuant to which the District will dismiss the suit with prejudice.

Since early December 1997, a number of securities class action lawsuits have been filed against the Company and certain of its officers and directors in United States District Court for the Central District of California. The plaintiffs in these actions are persons who purchased shares of the Company's Common Stock on the open market during calendar 1996 and 1997, and who are asserting claims for monetary damages in an unspecified amount on behalf of themselves and other similarly situated purchasers of the Company's Common Stock. These actions followed the Company's announcement on December 2, 1997 of its plans to reduce production, accelerate its transition to MR head technology, exit the 3-inch drive business, and take associated accounting charges. The complaints allege essentially that during calendar 1996 and 1997 and before the December 2, 1997 announcement, the Company and its officers knew the Company was experiencing and would continue to experience difficulties with its transition from thin film to MR head technology which would subject the Company to, among other things, low-end pricing pressures and the risk of obsolete inventory. The complaints further allege that nonetheless the Company made false and misleading statements concerning the outlook for the Company's operations and earnings and issued financial statements that were false and misleading in various ways, including improper deferral of obsolete inventory write-downs. The complaints further assert that the Company's officers made the alleged misleading statements in order to keep the market price of the Company's Common Stock at artificially high levels for various reasons, including to facilitate the sale of their own shares and to deter potential acquirors. The Company believes that additional suits may be filed containing similar allegations. The Company's directors and officers liability insurance carriers have been notified of the claims that have been received. Although the Company has had only a limited time to review these complaints, it believes that it has meritorious defenses to the claims and intends to defend itself vigorously. However, such litigation could result in substantial costs and a diversion of resources and management's attention.

## ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The annual meeting of shareholders was held on November 13, 1997. The shareholders elected the following eight directors to hold office until the next annual meeting and until their successors are elected and qualified:

	NUMBER OF VOTES	
	FOR	WITHHELD
James A. Abrahamson.....	78,891,122	252,719
Peter D. Behrendt.....	78,894,906	248,935
I. M. Booth.....	78,887,390	256,451
Irwin Federman.....	78,895,212	248,628
Charles A. Haggerty.....	78,963,499	243,274
Andre R. Horn.....	78,890,390	253,450
Anne O. Krueger.....	78,893,611	250,230
Thomas E. Pardun.....	78,894,931	248,910

In addition, the shareholders approved the following proposals:

	NUMBER OF VOTES	
	FOR	AGAINST*
1. To approve the amendment to the Company's Employee Stock Purchase Plan authorizing an additional 2,000,000 shares.....	77,536,283	1,670,316
3. To ratify the selection of KPMG Peat Marwick LLP as independent accountants for the Company for the fiscal year ended June 27, 1998.....	78,854,402	352,198

\* includes abstentions

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

## (a) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1.3	Western Digital Corporation Amended and Restated Employee Stock Option Plan, as amended on November 13, 1997* **
10.3.2	Western Digital Corporation 1993 Employee Stock Purchase Plan, as amended on November 13, 1997(1)
10.10.2	Western Digital Corporation Deferred Compensation Plan, as amended and restated effective January 1, 1998(2)
10.11.1	Amendment No. 1 to the Western Digital Corporation Executive Bonus Plan* **
10.32.3	Fifth Amendment to the Company's Retirement Savings and Profit Sharing Plan* **
10.38	Revolving Credit and Term Loan Agreement, dated as of January 28, 1998, among Western Digital Corporation, BankBoston, N.A. and other lending institutions listed therein*
27	Financial Data Schedule*

\* New exhibit filed with this Report

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

- (1) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-42991) as filed with the Securities and Exchange Commission on December 22, 1997.
- (2) Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-41423) as filed with the Securities and Exchange Commission on December 3, 1997.

(b)REPORTS ON FORM 8-K  
None

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

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/s/ DUSTON WILLIAMS

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Duston M. Williams  
Senior Vice President  
and Chief Financial Officer

Date: February 5, 1998

## EXHIBIT INDEX

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WESTERN DIGITAL CORPORATION  
AMENDED AND RESTATED  
EMPLOYEE STOCK OPTION PLAN

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

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

3. Administration.

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

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

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



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

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

6. Terms and Conditions of Options.

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

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

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

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

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



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

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

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

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

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

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

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



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

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

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

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

foregoing, no option shall be modified in such a manner

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

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

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

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

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

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



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

12. Miscellaneous.

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

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

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

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

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

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

NOW, THEREFORE, the Plan is amended as follows:

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

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

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

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

WESTERN DIGITAL CORPORATION

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

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

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

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

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

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

NOW, THEREFORE, the Plan is amended as follows:

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

2.14 ELIGIBLE EMPLOYEE

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

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

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

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

2.15 EMPLOYEE

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

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

- 2.15.2 "Employee" shall include a person deemed to be employed by an Employer or an Affiliated Company, pursuant to Code Section 414(n). Notwithstanding the foregoing, if such leased employees constitute less than twenty percent (20%) of the Company's non-highly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the term "Employee" shall not include those leased employees covered by a plan described in Section 414(n)(5) of the Code unless otherwise provided by the terms of the Plan.
- 2.15.3 Although Eligible Employees are the only class of individuals eligible to participate in this Plan, the term "Employee" is used to refer to persons employed in a non-eligible Employee capacity as well as Eligible Employee category. Thus, those provisions of this Plan that are not limited to Eligible Employees, such as those relating to certain service computation rules, apply to both Eligible and non-Eligible Employees.

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

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

WESTERN DIGITAL CORPORATION

By: \_\_\_\_\_  
Michael A. Cornelius  
Vice President, Law & Administration,  
Secretary

REVOLVING CREDIT  
AND TERM LOAN AGREEMENT

dated as of January 28, 1998

among

WESTERN DIGITAL CORPORATION,  
BANKBOSTON, N.A.  
and the other lending institutions listed on Schedule 1 hereto

and

BANCBOSTON SECURITIES INC.  
having acted as arranger for this transaction

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## EXHIBITS

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REVOLVING CREDIT  
AND TERM LOAN AGREEMENT

This REVOLVING CREDIT AND TERM LOAN AGREEMENT is made as of January 28, 1998, by and among (a) WESTERN DIGITAL CORPORATION (the "Borrower"), a Delaware corporation having its principal place of business at 8105 Irvine Center Drive, Irvine, California 92718, (b) BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 hereto, and (c) BANKBOSTON, N.A., as agent for itself and such other lending institutions (the "Agent").

1. DEFINITIONS AND RULES OF INTERPRETATION.

1.1. DEFINITIONS. The following terms shall have the meanings set forth in this ss.1 or elsewhere in the provisions of this Credit Agreement referred to below:

Accounts Receivable. All rights of the Borrower or any of its Subsidiaries to payment for goods sold, leased or otherwise marketed in the ordinary course of business and all rights of the Borrower or any of its Subsidiaries to payment for services rendered in the ordinary course of business and all sums of money or other proceeds due thereon pursuant to transactions with account debtors, except for that portion of the sum of money or other proceeds due thereon that relate to sales, use or property taxes in conjunction with such transactions, recorded on books of account in accordance with generally accepted accounting principles.

Adjustment Date. The first day of the month immediately following the month in which a Compliance Certificate is to be delivered by the Borrower pursuant to ss.9.4(c).

Affiliate. Any Person that would be considered to be an affiliate of the Borrower under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if the Borrower were issuing securities.

Agent's Head Office. The Agent's head office located at 100 Federal Street, Boston, Massachusetts 02110, or at such other location as the Agent may designate from time to time.

Agent. As defined in the preamble hereto.

Agent's Special Counsel. Bingham Dana LLP or such other counsel as may be approved by the Agent.

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

LEVEL	LIABILITIES TO WORTH RATIO	BASE RATE LOANS (BASIS POINTS)	EURODOLLAR RATE LOANS (BASIS POINTS)	COMMITMENT FEE RATE (BASIS POINTS)	LETTER OF CREDIT FEES (BASIS POINTS)
I	Less than or equal to 1.75:1.00	25	150	37.50	150
II	Greater than 1.75:1.00, but less than or equal to 2.00:1.00	50	175	50	175
III	Greater than 2.00:1.00	75	200	50	200

Notwithstanding the foregoing, (a) for Loans outstanding, Letter of Credit Fees payable and the Commitment Fee Rate during the period commencing on the Closing Date through the date immediately preceding the first Adjustment Date to occur after June 30, 1998, the Applicable Margin shall not be lower than Level II set forth above, and (b) if the Borrower fails to deliver any Compliance Certificate when required by ss.9.4(c) hereof then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the highest Applicable Margin set forth above.

Assignment and Acceptance. See ss.20.1.

Balance Sheet Date. June 28, 1997.

Bank Guarantee Bank. BankBoston, N.A., in its individual capacity (including acting through its London branch).

Banks. BKB and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Bank pursuant to ss.19 hereof.

Base Rate. The higher of (a) the annual rate of interest announced from time to time by BKB at its head office in Boston, Massachusetts, as its "base rate" and (b) one-half of one percent (1/2%) above the Federal Funds Effective Rate. For the purposes of this definition, "Federal Funds Effective Rate" shall mean for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three funds brokers of recognized standing selected by the Agent.

Base Rate Loans. Revolving Credit Loans and all or any portion of the Term Loan bearing interest calculated by reference to the Base Rate.

BKB. BankBoston, N.A., a national banking association in its individual capacity.

Borrower. As defined in the preamble hereto.

Borrowing Base. At the relevant time of reference thereto, an amount determined by the Agent by reference to the most recent Borrowing Base Report delivered to the Banks and the Agent pursuant to ss.9.4(e), as adjusted pursuant to the provisions below, which is equal to the sum of:

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(a) 80% of Eligible Domestic Accounts Receivable for which invoices have been issued; plus

(b) the lesser of (i) the Specified Intercompany Amount which is guaranteed pursuant to the Guarantee and (ii) 60% of Eligible UK Accounts Receivable for which invoices have been issued; plus

(c) to the extent any Foreign Subsidiary Note and the Borrower's security interest in the Accounts Receivable such Foreign Subsidiary securing such Foreign Subsidiary's Foreign Subsidiary Note are then subject to a first priority perfected security interest in favor of the Agent for the benefit of the Agent and the Banks, the lesser of (i) the outstanding principal amount of such Foreign Subsidiary Note and (ii) 60% of Eligible Foreign Accounts Receivable for which invoices have been issued securing such Foreign Subsidiary Note; minus

(d) Reserves;

provided, however, the Agent reserves its rights, from time to time, upon thirty (30) days' prior notice to the Borrower, to decrease the advance rates set forth herein if, in the Agent's reasonable discretion, the results of commercial finance examinations indicate a material deterioration in the Borrower's or its Subsidiaries' Eligible Accounts Receivable from the Closing Date, such that a lower advance rate for Eligible Accounts Receivables is warranted.

**Borrowing Base Report.** A Borrowing Base Report signed by the chief financial officer or treasurer (if such Person is an officer of the Borrower) of the Borrower and in substantially the form of Exhibit A hereto.

**Business Day.** Any day on which banking institutions in each of the cities in which each Bank's Domestic Lending Office is located are open for the transaction of banking business and, in the case of Eurodollar Rate Loans, also a day which is a Eurodollar Business Day.

**Capital Assets.** Fixed assets, both tangible (such as land, buildings, fixtures, machinery and equipment) and intangible (such as patents, copyrights, trademarks, franchises and goodwill); provided that Capital Assets shall not include any item customarily charged directly to expense or depreciated over a useful life of twelve (12) months or less in accordance with generally accepted accounting principles.

**Capital Expenditures.** Amounts paid or indebtedness incurred by the Borrower or any of its Subsidiaries in connection with (a) the purchase or lease by the Borrower or any of its Subsidiaries of Capital Assets that would be required to be capitalized and shown on the balance sheet of such Person in accordance with generally accepted accounting principles or (b) the lease of any assets by the Borrower or any of its Subsidiaries as lessee under any Synthetic Lease other than the Permitted Synthetic Lease to the extent that such assets would have been Capital Assets had the Synthetic Lease been treated for accounting purposes as a Capitalized Lease.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

CERCLA. See ss.8.18.

Closing Date. The first date on which the conditions set forth in ss.12 have been satisfied and any Revolving Credit Loans and the Term Loan are to be made or any Letter of Credit is to be issued hereunder.

Code. The Internal Revenue Code of 1986.

Collateral. All of the property, rights and interests of the Borrower and its Subsidiaries that are or are intended to be subject to the security interests and mortgages created by the Security Documents.

Commitment. With respect to each Bank, the amount set forth on Schedule 1 hereto as the amount of such Bank's commitment to make Revolving Credit Loans to, and to participate in the issuance, extension and renewal of Letters of Credit for the account of, the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Fee. See ss.2.2.

Commitment Fee Rate. The applicable rate per annum set forth in the chart contained in the definition of Applicable Margin under the heading "Commitment Fee Rate".

Commitment Percentage. With respect to each Bank, the percentage set forth on Schedule 1 hereto as such Bank's percentage of the aggregate Commitments of all of the Banks, and with respect to the Term Loan, the percentage set forth on Schedule 1 of such Bank's commitment to make the Term Loan.

Compliance Certificate. See ss.9.4(c).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with generally accepted accounting principles, after eliminating therefrom all extraordinary nonrecurring items of income.

Consolidated Intangible Assets. As to any Person and its Subsidiaries for the relevant period of reference thereto, the sum of (a) the total book value of all assets of the Borrower and its Subsidiaries properly classified as intangible assets under generally accepted accounting principles, including, without duplication, such items as goodwill, the purchase price of acquired assets in excess of the fair market value thereof, trademarks, trade names, service marks, brand names, copyrights, patents and licenses, and rights with respect to the foregoing; plus (b) all amounts representing any write-up in the book value of any assets of the Borrower or its Subsidiaries resulting from a revaluation thereof

subsequent to the Balance Sheet Date, excluding adjustments to translate foreign assets and liabilities for changes in foreign exchange rates made in accordance with Financial Accounting Standards Board Statement No. 52; plus (c) to the extent otherwise included in the computation, any subscriptions receivable.

**Consolidated Net Income (or Deficit).** The consolidated net income (or deficit) of the Borrower and its Subsidiaries, after deduction of all expenses, taxes, and other proper charges, determined in accordance with generally accepted accounting principles.

**Consolidated Net Operating Income (or Deficit).** As of any date of determination, the sum of (a) Consolidated Net Income (or Deficit) of the Borrower and its Subsidiaries plus, to the extent otherwise deducted in the calculation of Consolidated Net Income, (b) all taxes and Consolidated Total Interest Expense for such period.

**Consolidated Tangible Net Worth.** The excess of Consolidated Total Assets over Consolidated Total Liabilities, and less the sum of Consolidated Intangible Assets.

**Consolidated Total Assets.** The sum of all assets of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles.

**Consolidated Total Cash Interest Expense.** For any period, the aggregate amount of interest required to be paid by the Borrower and its Subsidiaries during such period on all Indebtedness of the Borrower and its Subsidiaries outstanding during all or any part of such period, whether or not such interest was or is required to be reflected as an item of expense in such period, including payments consisting of interest in respect of Capitalized Leases, Synthetic Leases and including commitment fees, agency fees, facility fees (other than the closing fee set forth in ss.6.1 hereunder), balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

**Consolidated Total Interest Expense.** For any period, the aggregate amount of interest required to be paid or accrued by the Borrower and its Subsidiaries during such period on all Indebtedness of the Borrower and its Subsidiaries outstanding during all or any part of such period, whether or not such interest was or is required to be reflected as an item of expense or capitalized in such period, including payments consisting of interest in respect of Capitalized Leases, Synthetic Leases and including commitment fees, agency fees, facility fees (other than the closing fee set forth in ss.6.1 hereunder), balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

**Consolidated Total Liabilities.** All liabilities of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles and all Indebtedness of the Borrower and its Subsidiaries, whether or not so classified; provided, however, for purposes of calculating the Liabilities to Worth Ratio for determining the Applicable Margin and for purposes of calculating compliance with ss.11 hereof, Consolidated Total Liabilities shall exclude all Indebtedness which constitutes (a) a "derivative contract" (as defined in paragraph (i) of the term Indebtedness); (b) obligations under securities repurchase agreements; and (c) any "equity related purchase obligations"

(as such term is defined in paragraph (h) of the term Indebtedness) pertaining to the Stock Option Plan.

Conversion Request. A notice given by the Borrower to the Agent of the Borrower's election to convert or continue a Loan in accordance with ss.2.7.

Credit Agreement. This Revolving Credit and Term Loan Agreement, including the Schedules and Exhibits hereto.

Credit Instruments. Collectively, (a) a bank guarantee issued by the Bank Guarantee Bank on October 24, 1997 in the face amount of approximately 5,000,000 British pounds sterling for the account of WD UK; and (c) a bank guarantee issued by the Bank Guarantee Bank on November 7, 1997 in favor of ABN Amro Bank in the face amount of 500,000 dutch guilders for the account of WD UK.

December 1997 Charge. The one time nonrecurring charge of the Borrower taken in the fiscal quarter ended December 27, 1997 in an amount equal to \$148,000,000.

Default. See ss.14.1.

Delinquent Bank. See ss.16.5.3.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of capital stock of the Borrower, other than dividends payable solely in shares of common stock of the Borrower; the purchase, redemption, or other retirement of any shares of any class of capital stock of the Borrower, directly or indirectly through a Subsidiary of the Borrower or otherwise; the return of capital by the Borrower to its shareholders as such; or any other distribution on or in respect of any shares of any class of capital stock of the Borrower.

Dollar Equivalent. On any date of determination, with respect to an amount denominated in Dollars, such amount of Dollars, and with respect to an amount denominated in a currency other than Dollars, the amount (as conclusively ascertained by the Agent absent manifest error) of Dollars which could be purchased by the Agent in the London foreign currency deposits market with such amount of such currency at the spot rate of exchange prevailing at or about 11:00 a.m. (London time) for delivery on such date.

Dollars or \$. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, located within the United States that will be making or maintaining Base Rate Loans.

Domestic Subsidiary. Any Subsidiary of the Borrower which is not a Foreign Subsidiary; provided, however, for purposes of this Credit Agreement, Pacifica Insurance Corporation shall not be considered a Domestic Subsidiary.

Drawdown Date. The date on which any Revolving Credit Loan or the Term Loan is made or is to be made, and the date on which any Revolving Credit Loan is converted or

continued in accordance with ss.2.7 or all or any portion of the Term Loan is converted or continued in accordance with ss.4.5(b).

EBITDA. With respect to the Borrower and its Subsidiaries for any fiscal period, an amount equal to Consolidated Net Income for such period, plus, to the extent deducted in the calculation of Consolidated Net Income and without duplication, (a) depreciation for such period, (b) amortization for such period, (c) income tax expense for such period and (d) Consolidated Total Interest Expense paid or accrued for such period, all as determined in accordance with generally accepted accounting principles.

Eligible Accounts Receivable. Collectively, the Eligible Domestic Accounts Receivable, the Eligible UK Accounts Receivable and the Eligible Foreign Accounts Receivable.

Eligible Assignee. Any of (a) a commercial bank or finance company organized under the laws of the United States, or any State thereof or the District of Columbia, and having total assets in excess of \$1,000,000,000; (b) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof or the District of Columbia, and having a net worth of at least \$100,000,000, calculated in accordance with generally accepted accounting principles; (c) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; (d) the central bank of any country which is a member of the OECD; and (e) if, but only if, any Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Agent, such approval not to be unreasonably withheld.

Eligible Domestic Accounts Receivable. The aggregate of the unpaid portion of Accounts Receivable (net of any credits, rebates, offsets, amounts in dispute, holdbacks or other adjustments or commissions payable to third parties that are adjustments to such Accounts Receivable) of the Borrower and the Guarantors (a) that the Borrower reasonably and in good faith determines to be collectible; (b) that are with account debtors or other obligors that (i) are not Affiliates of the Borrower, (ii) purchased the goods or services giving rise to the relevant Account Receivable in an arm's length transaction, (iii) are not insolvent or involved in any case or proceeding, whether voluntary or involuntary, under any bankruptcy, reorganization, arrangement, insolvency, adjustment of debt, dissolution, liquidation or similar law of any jurisdiction and (iv) are, in the Agent's reasonable judgment, creditworthy; (c) that are in payment of obligations that have been fully performed; (d) that are not subject to any pledge, restriction, security interest or other lien or encumbrance other than those created by the Loan Documents; (e) in which the Agent has a valid and perfected first priority security interest; (f) that are not more than sixty (60) days past due; (g) that are not due from an account debtor or other obligor located in Minnesota unless the Borrower (i) has received a certificate of authority to do business and is in good standing in such state or (ii) has filed a notice of business activities report with the appropriate office or agency of such state for the current year; (h) that are not due from

any single account debtor or other obligor if more than fifty percent (50%) of the aggregate amount of all Accounts Receivable owing from such account debtor or other obligor are more than ninety (90) days past due; (i) that are payable in Dollars; (j) that are not payable from an office outside of any country in which an account debtor of the Borrower or any Guarantor on the Closing Date is located on the Closing Date, or such other location which is acceptable to the Agent; and (k) that if such Accounts Receivable are secured by a letter of credit, the Agent has a prior, perfected security interest in such letter of credit.

Eligible Foreign Accounts Receivable. The aggregate of the unpaid portion of Accounts Receivable (net of any credits, rebates, offsets, amounts in dispute, holdbacks or other adjustments or commissions payable to third parties that are adjustments to such Accounts Receivable) of WD Germany (a) that the Borrower and WD Germany reasonably and in good faith determines to be collectible; (b) that are with account debtors or other obligors that (i) are not Affiliates of the Borrower or WD Germany, (ii) purchased the goods or services giving rise to the relevant Account Receivable in an arm's length transaction, (iii) are not insolvent or involved in any case or proceeding, whether voluntary or involuntary, under any bankruptcy, reorganization, arrangement, insolvency, adjustment of debt, dissolution, liquidation or similar law of any jurisdiction and (iv) are, in the Agent's reasonable judgment, creditworthy; (c) that are in payment of obligations that have been fully performed; (d) that are not subject to any pledge, restriction, security interest or other lien or encumbrance other than those created by the Loan Documents or expressly required by subparagraph (k) hereof; (e) that are not more than sixty (60) days past due; (f) that are not due from an account debtor or other obligor located in Minnesota unless WD Germany (i) has received a certificate of authority to do business and is in good standing in such state or (ii) has filed a notice of business activities report with the appropriate office or agency of such state for the current year; (g) that are not due from any single account debtor or other obligor if more than fifty (50%) of the aggregate amount of all Accounts Receivable owing from such account debtor or other obligor are more than ninety (90) days past due; (h) that are payable in Dollars, German deutsche marks, French francs, British pounds sterling, Norwegian kroners, Singapore dollars or any other currency acceptable to the Agent; (i) that are not payable from an office outside of any country in which an account debtor of WD Germany on the Closing Date is located on the Closing Date, or such other location as is acceptable to the Agent; (j) that are not secured by a letter of credit; and (k) that is subject to a first priority perfected security interest in favor of the Borrower as security for WD Germany's Foreign Subsidiary Note and assigned as security to the Agent for the benefit of the Agent and the Banks.

Eligible UK Accounts Receivable. The aggregate of the unpaid portion of Accounts Receivable (net of any credits, rebates, offsets, amounts in dispute, holdbacks or other adjustments or commissions payable to third parties that are adjustments to such Accounts Receivable) of WD UK (a) that the Borrower and WD UK reasonably and in good faith determines to be collectible; (b) that are with account debtors or other obligors that (i) are not Affiliates of the Borrower or WD UK, (ii) purchased the goods or services giving rise to the relevant Account Receivable in an arm's length transaction, (iii) are not insolvent or involved in any case or proceeding, whether voluntary or involuntary, under any bankruptcy, reorganization, arrangement, insolvency, adjustment of debt, dissolution, liquidation or similar law of any jurisdiction and (iv) are, in the Agent's reasonable judgment, creditworthy; (c) that are in payment of obligations that have been fully

performed; (d) that are not subject to any pledge, restriction, security interest or other lien or encumbrance other than those created by the Loan Documents; (e) in which the Agent has a valid and perfected first priority security interest; (f) that are not more than sixty (60) days past due; (g) that are not due from an account debtor or other obligor located in Minnesota unless WD UK (i) has received a certificate of authority to do business and is in good standing in such state or (ii) has filed a notice of business activities report with the appropriate office or agency of such state for the current year; (h) that are not due from any single account debtor or other obligor if more than fifty percent (50%) of the aggregate amount of all Accounts Receivable owing from such account debtor or other obligor are more than ninety (90) days past due; (i) that are payable in Dollars, German deutsche marks, French francs, British pound sterling, Norwegian kroners, Singapore dollars or any other currency acceptable to the Agent; (j) that are not payable from an office outside of any country in which an account debtor of WD UK on the Closing Date is located on the Closing Date, or such other location which is acceptable to the Agent; and (k) that are not secured by a letter of credit unless the Agent has a prior, perfected security interest in such letter of credit.

Employee Benefit Plan. Any employee benefit plan within the meaning of ss.3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Guaranteed Pension Plan or a Multiemployer Plan.

Environmental Laws. See ss.8.18(a).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under ss.414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of ss.4043 of ERISA and the regulations promulgated thereunder.

Eurocurrency Interbank Market. Any lawful recognized market in which deposits of Dollars and the relevant Optional Currencies are offered by international banking units of United States banking institutions and by foreign banking institutions to each other and in which foreign currency and exchange operations or eurocurrency funding operations are customarily conducted.

Eurocurrency Reserve Rate. For any day with respect to a Eurodollar Rate Loan, the maximum rate (expressed as a decimal) at which any lender subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Eurodollar Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other

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eurodollar interbank market as may be selected by the Agent in its sole discretion acting in good faith.

Eurodollar Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, that shall be making or maintaining Eurodollar Rate Loans.

Eurodollar Rate. For any Interest Period with respect to a Eurodollar Rate Loan, the rate of interest equal to (a) the rate per annum for the Reference Bank (rounded upwards to the nearest 1/16 of one percent) at which the Reference Bank's Eurodollar Lending Office is offered Dollar deposits two (2) Eurodollar Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations of such Eurodollar Lending Office are customarily conducted, for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of the Eurodollar Rate Loan of the Reference Bank to which such Interest Period applies, divided by (b) a number equal to 1.00 minus the Eurocurrency Reserve Rate, if applicable.

Eurodollar Rate Loans. Revolving Credit Loans and all or any portion of the Term Loan bearing interest calculated by reference to the Eurodollar Rate.

Event of Default. See ss.14.1.

Fee Letter. The Fee Letter dated on or prior to the Closing Date by and among the Borrower and the Agent, as the same may be amended, modified, restated or supplemented from time to time.

Foreign Pledge Agreements. Collectively, (a) the Charges Over Shares by the Borrower in the shares of WD UK and WD Malaysia; (b) the Share Mortgage by the Borrower in the shares of WD Cayman Islands; and (c) the Share Pledge Agreement by the Borrower in the shares of WD Germany, each dated as of a date on or prior to the Closing Date and each in form and substance satisfactory to the Banks and the Agent.

Foreign Subsidiary. Any Subsidiary which conducts substantially all of its business in countries other than the United States of America and that is organized under the laws of a jurisdiction other than the United States of America and the States (or the District of Columbia) thereof.

Foreign Subsidiary Loan. Any intercompany loan to be made by the Borrower to WD Germany on or after the Closing Date, in the amounts and on the terms permitted by ss.10.1.

Foreign Subsidiary Note. A promissory note from WD Germany to the Borrower in substantially the form of Exhibit H, which note evidences intercompany loans made by the Borrower to WD Germany, and which is in form and substance satisfactory to the Agent.

Foreign Subsidiary Note Assignment. That certain Collateral Assignment, dated on or prior to the Closing Date, from the Borrower to the Agent, collaterally assigning to the Agent all of the Borrower's rights, title and interest in the Foreign Subsidiary Note and

Foreign Subsidiary Security Documents, and in form and substance satisfactory to the Agent and the Banks.

Foreign Subsidiary Security Documents. As to any Foreign Subsidiary which is the obligor on a Foreign Subsidiary Note, the instruments, agreements, filings, notices, registrations, certificates and other documents delivered to the Agent pursuant to the terms of this Credit Agreement, and all other instruments, agreements, filings, notices, registrations, certificates and other documents delivered to the Agent or any Bank in connection with or to secure any Foreign Subsidiary Loan or Foreign Subsidiary Note.

generally accepted accounting principles. (a) When used in ss.11, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general, other than as provided above, means principles that are (i) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time, and (ii) consistently applied with past financial statements of the Borrower adopting the same principles, provided that in each case referred to in this definition of "generally accepted accounting principles" a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of ss.3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantee. That Guarantee and Indemnity Agreement, dated or to be dated after the Closing Date, made by WD UK in favor of the Banks and the Agent pursuant to which WD UK guarantees to the Banks and the Agent the payment and performance of certain of the Obligations, and in form and substance satisfactory to the Agent and the Banks.

Guarantors. All Domestic Subsidiaries of the Borrower existing on the Closing Date other than Pacifica Insurance Corporation and each other Person which is required to be or become guarantors from time to time pursuant to ss.9.13 hereof.

Guaranty. The Guaranty, dated or to be dated on or prior to the Closing Date, made by each Guarantor in favor of the Banks and the Agent pursuant to which each Guarantor guarantees to the Banks and the Agent the payment and performance of the Obligations and in form and substance satisfactory to the Banks and the Agent.

Hazardous Substances. See ss.8.18(b).

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Indebtedness. As to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

(a) every obligation of such Person for money borrowed,

(b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses,

(c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person,

(d) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business),

(e) every obligation of such Person under any Capitalized Lease,

(f) every obligation of such Person under any lease (a "Synthetic Lease") treated as an operating lease under generally accepted accounting principles and as a loan or financing for U.S. income tax purposes,

(g) all sales by such Person of (A) accounts or general intangibles for money due or to become due, (B) chattel paper, instruments or documents creating or evidencing a right to payment of money or (C) other receivables (collectively "receivables"), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of such Person relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith,

(h) every obligation of such Person (an "equity related purchase obligation") to purchase, redeem, retire or otherwise acquire for value any shares of capital stock of any class issued by such Person, any warrants, options or other rights to acquire any such shares, or any rights measured by the value of such shares, warrants, options or other rights,

(i) every obligation of such Person under any forward contract, futures contract, swap, option or other financing agreement or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices (a "derivative contract"),

(j) every obligation in respect of Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent that such

Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor and such terms are enforceable under applicable law,

(k) every obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (i) (the "primary obligation") of another Person (the "primary obligor"), in any manner, whether directly or indirectly, and including, without limitation, any obligation of such Person (i) to purchase or pay (or advance or supply funds for the purchase of) any security for the payment of such primary obligation, (ii) to purchase property, securities or services for the purpose of assuring the payment of such primary obligation, or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such primary obligation.

The "amount" or "principal amount" of any Indebtedness at any time of determination represented by (u) any Indebtedness, issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with generally accepted accounting principles, (v) any Capitalized Lease shall be the principal component of the aggregate of the rentals obligation under such Capitalized Lease payable over the term thereof that is not subject to termination by the lessee, (w) any sale of receivables shall be the amount of unrecovered capital or principal investment of the purchaser (other than the Borrower or any of its wholly-owned Subsidiaries) thereof, excluding amounts representative of yield or interest earned on such investment, (x) any Synthetic Lease shall be the stipulated loss value, termination value or other equivalent amount, (y) any derivative contract shall be the maximum amount of any termination or loss payment required to be paid by such Person if such derivative contract were, at the time of determination, to be terminated by reason of any event of default or early termination event thereunder, whether or not such event of default or early termination event has in fact occurred and (z) any equity related purchase obligation shall be the maximum fixed redemption or purchase price thereof inclusive of any accrued and unpaid dividends to be comprised in such redemption or purchase price.

Indenture Trustee. The Person who is designated as the "Indenture Trustee" under the Subordinated Indenture.

Ineligible Securities. Securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. ss.24, Seventh), as amended.

Instrument of Adherence. See ss.10.5.1.

Interest Payment Date. (a) As to any Base Rate Loan, the last day of the calendar quarter with respect to interest accrued during such calendar quarter, including, without limitation, the calendar quarter which includes the Drawdown Date of such Base Rate Loan; and (b) as to any Eurodollar Rate Loan in respect of which the Interest Period is (i) 3

months or less, the last day of such Interest Period, and (ii) more than three (3) months, the date that is three (3) months from the first day of such Interest Period.

Interest Period. With respect to each Loan, (a) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Loan Request (i) for any Base Rate Loan, the last day of the calendar quarter; and (ii) for any Eurodollar Rate Loan, 1, 2, 3 or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(a) if any Interest Period with respect to a Eurodollar Rate Loan would otherwise end on a day that is not a Eurodollar Business Day, that Interest Period shall be extended to the next succeeding Eurodollar Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Eurodollar Business Day;

(b) if the Borrower shall fail to give notice as provided in ss.2.7, the Borrower shall be deemed to have requested a conversion of the affected Eurodollar Rate Loan to a Base Rate Loan and the continuance of all Base Rate Loans as Base Rate Loans on the last day of the then current Interest Period with respect thereto;

(c) any Interest Period relating to any Eurodollar Rate Loan that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month; and

(d) any Interest Period relating to any Eurodollar Rate Loan that would otherwise extend beyond the Revolving Credit Loan Maturity Date (if comprising a Revolving Credit Loan) or the Term Loan Maturity Date (if comprising the Term Loan or a portion thereof) shall end on the Revolving Credit Loan Maturity Date or (as the case may be) the Term Loan Maturity Date.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person. In determining the aggregate amount of Investments outstanding at any particular time: (a) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest

included as provided in the foregoing clause (b) may be deducted when paid; and (e) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Letter of Credit. See ss.5.1.1.

Letter of Credit Application. See ss.5.1.1.

Letter of Credit Fee. See ss.5.6.

Letter of Credit Participation. See ss.5.1.4.

Liabilities to Worth Ratio. As of any date of determination, the ratio of (a) the sum of (i) Consolidated Total Liabilities of the Borrower and its Subsidiaries for the fiscal quarter most recently ended plus to the extent not otherwise included in the calculation of Consolidated Total Liabilities and without duplication, (ii) all other Indebtedness of the Borrower and its Subsidiaries which does not appear on the Borrower's consolidated balance sheet as a liability for the fiscal quarter of the Borrower and its Subsidiaries most recently ended (other than Indebtedness which constitutes (A) a "derivative contract" (as defined in paragraph (i) of the term Indebtedness); (B) obligations under securities repurchase agreements; and (C) any "equity related purchase obligations" (as such term is defined in paragraph (h) of the term Indebtedness) pertaining to the Stock Option Plan), less (iii) the aggregate amount of the outstanding Subordinated Notes on such date to (b) Consolidated Tangible Net Worth of the Borrower and its Subsidiaries for such period.

Loan Documents. This Credit Agreement, the Notes, the Letter of Credit Applications, the Letters of Credit and the Security Documents.

Loan Request. See ss.2.6.

Loans. The Revolving Credit Loans and the Term Loan.

Majority Banks. As of any date, the Banks holding at least fifty-one percent (51%) of the outstanding principal amount of the Notes on such date; and if no such principal is outstanding, the Banks whose aggregate Commitments constitutes at least fifty-one percent (51%) of the Total Commitment.

Maximum Drawing Amount. The maximum aggregate amount that the beneficiaries may at any time draw under outstanding Letters of Credit, as such aggregate amount may be reduced from time to time pursuant to the terms of the Letters of Credit.

Multiemployer Plan. Any multiemployer plan within the meaning of ss.3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Notes. The Term Notes and the Revolving Credit Notes.

Obligations. Collectively, (a) all indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to any of the Banks and the Agent, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or

indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect of any of the Loans made or Reimbursement Obligations incurred or any of the Notes, Letter of Credit Application, Letters of Credit or arising or incurred in connection with any interest rate protection arrangements provided by the Banks, foreign exchange an/or currency risk protection arrangements entered into with any of the Banks, or any documents or instruments executed in connection therewith, or other instruments at any time evidencing any thereof; and (b) all indebtedness, obligations and liabilities of any of the Borrower and/or WD UK to the Bank Guarantee Bank, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under the Credit Instruments, the WDC Guaranty or any other loan documents executed in connection therewith or in respect of any of the reimbursement obligations incurred thereunder, or any documents or instruments executed in connection therewith, or other instruments at any time evidencing any thereof.

Optional Currency. Any currency other than Dollars which is freely convertible into Dollars and which is traded on any recognized Eurocurrency Interbank Market selected by the Agent in good faith; provided, however, that in the event the Borrower requests an Optional Currency for a Letter of Credit consisting of a currency other than British pounds/Sterling, the issuance of such Letter of Credit shall be subject to the consent of the Agent.

outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

Patent Assignments. The several Patent Assignments, dated or to be dated on or prior to the Closing Date, made by the Borrower and the Guarantors in favor of the Agent and in form and substance satisfactory to the Banks and the Agent.

PBGC. The Pension Benefit Guaranty Corporation created by ss.4002 of ERISA and any successor entity or entities having similar responsibilities.

Perfection Certificates. The Perfection Certificates defined in the Security Agreements.

Permitted Acquisition. As defined in ss.10.5.1.

Permitted Liens. Liens, security interests and other encumbrances permitted by ss.10.2.

Permitted Synthetic Lease. See ss.10.1(c).

Person. Any individual, corporation, partnership, trust, unincorporated association, business, or other legal entity, and any government or any governmental agency or political subdivision thereof.

Rate Adjustment Period. See the definition of Applicable Margin.

Real Estate. All real property at any time owned or leased (as lessee or sublessee) by the Borrower or any of its Subsidiaries.

Receivables Charge. The Receivables Charge, dated or to be dated on or prior to the Closing Date, between WD UK and the Agent and in form and substance satisfactory to the Agent and the Banks.

Record. The grid attached to a Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Bank with respect to any Loan referred to in such Note.

Reference Bank. BKB.

Reference Period. The period of four (4) consecutive fiscal quarters of the Borrower ending on the relevant date (or, if such date is not a fiscal quarter end date, the period of four (4) consecutive fiscal quarters most recently ended).

Register. See ss.19.3.

Reimbursement Obligation. The Borrower's obligation to reimburse the Agent and the Banks on account of any drawing under any Letter of Credit as provided in ss.5.2.

Rental Obligations. All present or future obligations of the Borrower or any of its Subsidiaries under any rental agreements or leases of real or personal property, other than (a) obligations that can be terminated by the giving of notice without liability to the Borrower or such Subsidiary in excess of the liability for rent due as of the date on which such notice is given and under which no penalty or premium is paid as a result of any such termination, and (b) current obligations in respect of Capitalized Leases or Synthetic Leases.

Reserves. As determined by the Agent, such amounts as the Agent may from time to time establish and revise (a) to reflect events, conditions, contingencies or risks which do or may (i) adversely affect either (A) any Eligible Accounts Receivable, the rights of the Agent or any of the Banks in any Eligible Accounts Receivable or its value or (B) the security interest and other rights of the Agent or any of the Banks in the Eligible Accounts Receivable (including the enforceability, perfection and priority thereof) or (ii) adversely affect in any material respect the assets (other than any Eligible Accounts Receivable) or business or financial condition of the Borrower or any of its Subsidiaries or (b) to reflect the belief of the Agent that any Borrowing Base Report or other collateral report or financial information furnished by or on behalf of the Borrower to the Agent or any of the Banks is or may have been incomplete, inaccurate or misleading in any material respect. Reserves may include, but are not limited to: in store customer credits; payables based upon past due normal trade terms; gift certificates; frequent shopper programs; layaways and customer deposits; and taxes and other governmental charges, whether voluntary or involuntary, personal property or otherwise and whether or not the tax claims therefor may have priority over the Agent's security interest in any of the Eligible Accounts Receivable.

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Restricted Payment. In relation to the Borrower and its Subsidiaries, any (a) Distribution; or (b) payment by the Borrower or any of its Subsidiaries to any Affiliate other than payments to such Affiliate other than payments to such Affiliate for goods and services in the ordinary course of business on terms equivalent to those obtainable in arms length transactions.

Revolving Credit Loan Maturity Date. January 26,2001.

Revolving Credit Loans. Revolving credit loans made or to be made by the Banks to the Borrower pursuant to ss.2.

Revolving Credit Note Record. A Record with respect to a Revolving Credit Note.

Revolving Credit Notes. See ss.2.4.

Section 20 Subsidiary. A Subsidiary of the Bank holding company controlling any Bank, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

Security Agreements. The several Security Agreements, dated or to be dated on or prior to the Closing Date, between the Borrower and the Guarantors and the Agent and in form and substance satisfactory to the Banks and the Agent.

Security Documents. The Guaranty, the Guarantee, the Receivables Charge, the Security Agreements, the Foreign Stock Pledges, the Foreign Subsidiary Note Assignment, the Patent Assignments, the Trademark Assignments, the Stock Pledge Agreement and all other instruments and documents, including without limitation Uniform Commercial Code financing statements, required to be executed or delivered pursuant to any Security Document.

Specified Intercompany Amount. As of any date of determination, the amount which is identified as the "Specified Intercompany Amount" on line item 2(h) of the Borrower's Borrowing Base Report most recently delivered to the Agent.

Stock Option Plan. The Borrower's employee and non-employee director stock option plans existing on the Closing Date and more fully described on Schedule 10.1 hereto.

Stock Pledge Agreement. The Stock Pledge Agreement, dated or to be dated on or prior to the Closing Date, between the Borrower and the Agent and in form and substance satisfactory to the Banks and the Agent.

Strategic Partners. Any corporation or other business entity with which the Borrower or any of its Subsidiaries has or seeks to have a substantial or continuing commercial relationship involving the purchase and/or sale of products or materials or the development, acquisition or use of products, technology or intellectual property, and which Strategic Partner and any Investment in such Strategic Partner by the Borrower has been approved by the Board of Directors of the Borrower prior to making any Investment in such Strategic Partner.

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Subordinated Debt. Unsecured Indebtedness of the Borrower or any of its Subsidiaries that is expressly subordinated and made junior to the payment and performance in full of the Obligations, and evidenced as such by the Subordinated Indenture or by another written instrument containing subordination provisions in form and substance approved by the Agent and the Majority Banks in writing.

Subordinated Debt Documents. The Subordinated Purchase Agreement, the Subordinated Indenture, the Subordinated Registration Right Agreement, the Subordinated Notes, and any other document, agreement or instrument evidencing any Subordinated Debt.

Subordinated Indenture. The Indenture dated as of a date subsequent to the Closing Date between the Borrower and the Indenture Trustee relating to the Subordinated Notes, which Subordinated Indenture shall be in form and substance reasonably satisfactory to the Agent and the Majority Banks.

Subordinated Notes. The subordinated notes issued pursuant to the Subordinated Indenture, which notes shall be in form and substance reasonably satisfactory to the Agent and the Majority Banks.

Subordinated Purchase Agreement. The Purchase Agreement, as such term is defined in the Subordinated Indenture, relating to the issuance and sale by the Borrower of the Subordinated Notes, which shall be in form and substance reasonably satisfactory to the Agent and the Majority Banks.

Subordinated Registration Rights Agreement. The Registration Rights Agreement, as such term is defined in the Subordinated Indenture, relating to the issuance and sale by the Borrower of the Subordinated Notes, which shall be in form and substance reasonably satisfactory to the Agent and the Majority Banks.

Subsidiary. Any corporation, association, trust, or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority (by number of votes) of the outstanding Voting Stock.

Supermajority Banks. As of any date, the Banks holding at least sixty-six and two-thirds percent (66 2/3%) of the outstanding principal amount of the Notes on such date, and if no such principal is outstanding, the Banks whose aggregate Commitments constitute at least sixty-six and two-thirds percent (66 2/3%) of the Total Commitment.

Synthetic Lease. As such term is defined in subparagraph (f) of the definition of "Indebtedness".

Term Loan. The term loan made or to be made by the Banks to the Borrower on the Closing Date in the aggregate principal amount of \$50,000,000 pursuant to ss.4.1.

Term Loan Maturity Date. January 26, 2001.

Term Notes. See ss.4.2.

Term Note Record. A Record with respect to a Term Note.

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Total Commitment. The sum of the Commitments of the Banks, as in effect from time to time.

Trademark Assignments. The several Trademark Assignments, dated or to be dated on or prior to the Closing Date, made by the Borrower and the Guarantors in favor of the Agent and in form and substance satisfactory to the Banks and the Agent.

Type. As to any Revolving Credit Loan or all or any portion of the Term Loan, its nature as a Base Rate Loan or a Eurodollar Rate Loan.

Uniform Customs. With respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 or any successor version thereto adopted by the Agent in the ordinary course of its business as a letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

Unpaid Reimbursement Obligation. Any Reimbursement Obligation for which the Borrower does not reimburse the Agent and the Banks on the date specified in, and in accordance with, ss.5.2.

Voting Stock. Stock or similar interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, trust or other business entity involved, whether or not the right so to vote exists by reason of the happening of a contingency.

WDC Guaranty. That certain guaranty dated as of October 17, 1997 issued by the Borrower in favor of the Bank Guarantee Bank guaranteeing the payment and performance in full of WD UK's reimbursement obligations to the Bank Guarantee Bank under the Credit Instruments.

WD Cayman Islands. Western Digital Ireland, Ltd., an entity formed under the laws of the Cayman Islands and a wholly-owned Subsidiary of the Borrower.

WD Germany. Western Digital (Deutschland) GmbH, an entity formed under the laws of Germany and a wholly-owned Subsidiary of the Borrower.

WD Malaysia. Western Digital (Malaysia) SDN BHD, an entity formed under the laws of Malaysia and a wholly-owned Subsidiary of the Borrower.

WD UK. Western Digital (U.K.) Limited., an entity formed under the laws of the United Kingdom and a wholly-owned Subsidiary of the Borrower.

## 1.2. RULES OF INTERPRETATION.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement.

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(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by generally accepted accounting principles, which terms are defined in the Uniform Commercial Code as in effect in the Commonwealth of Massachusetts, have the meanings assigned to them therein, with the term "instrument" being that defined under Article 9 of the Uniform Commercial Code.

(h) Reference to a particular "ss." refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

(j) Unless otherwise expressly indicated, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including," the words "to" and "until" each mean "to but excluding," and the word "through" means "to and including."

(k) This Credit Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are, however, cumulative and are to be performed in accordance with the terms thereof.

(l) This Credit Agreement and the other Loan Documents are the result of negotiation among, and have been reviewed by counsel to, among others, the Agent and the Borrower and are the product of discussions and negotiations among all parties. Accordingly, this Credit Agreement and the other Loan Documents are not intended to be construed against the Agent or any of the Banks merely on account of the Agent's or any Bank's involvement in the preparation of such documents.

## 2. THE REVOLVING CREDIT FACILITY.

2.1. COMMITMENT TO LEND. Subject to the terms and conditions set forth in this Credit Agreement, each of the Banks severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time between the Closing Date and

the Revolving Credit Loan Maturity Date upon notice by the Borrower to the Agent given in accordance with ss.2.6, such sums as are requested by the Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Bank's Commitment minus such Bank's Commitment Percentage of the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations, provided that the sum of the outstanding amount of the Revolving Credit Loans (after giving effect to all amounts requested) plus the Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not at any time exceed the lesser of (a) the Total Commitment and (b) the Borrowing Base. The Revolving Credit Loans shall be made pro rata in accordance with each Bank's Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in ss.12 and ss.13, in the case of the initial Revolving Credit Loans to be made on the Closing Date, and ss.13, in the case of all other Revolving Credit Loans, have been satisfied on the date of such request.

2.2. COMMITMENT FEE. The Borrower agrees to pay to the Agent for the accounts of the Banks in accordance with their respective Commitment Percentages a commitment fee (the "Commitment Fee") calculated at the applicable Commitment Fee Rate on the average daily amount during each calendar quarter or portion thereof from the Closing Date to the Revolving Credit Loan Maturity Date by which the Total Commitment minus the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the outstanding amount of Revolving Credit Loans during such calendar quarter. The Commitment Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter commencing on the first such date following the date hereof, with a final payment on the Revolving Credit Maturity Date or any earlier date on which the Commitments shall terminate.

2.3. REDUCTION OF TOTAL COMMITMENT. The Borrower shall have the right at any time and from time to time upon five (5) Business Days prior written notice to the Agent to reduce by \$5,000,000 or a whole multiple of \$500,000 in excess thereof or terminate entirely the Total Commitment, whereupon the Commitments of the Banks shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this ss.2.3, the Agent will notify the Banks of the substance thereof. Upon the effective date of any such reduction or termination, the Borrower shall pay to the Agent for the respective accounts of the Banks the full amount of any Commitment Fee then accrued on the amount of the reduction. No reduction or termination of the Commitments may be reinstated.

2.4. THE REVOLVING CREDIT NOTES. The Revolving Credit Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit B hereto (each a "Revolving Credit Note"), dated as of the Closing Date and completed with appropriate insertions. One Revolving Credit Note shall be payable to the order of each Bank in a principal amount equal to such Bank's Commitment or, if less, the outstanding amount of all Revolving Credit Loans made by such Bank, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Bank to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or at the time of receipt of any payment of principal on such Bank's Revolving Credit Note, an

appropriate notation on such Bank's Revolving Credit Note Record reflecting the making of such Revolving Credit Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans set forth on such Bank's Revolving Credit Note Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount on such Bank's Revolving Credit Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Revolving Credit Note to make payments of principal of or interest on any Revolving Credit Note when due.

2.5. INTEREST ON REVOLVING CREDIT LOANS. Except as otherwise provided in ss.6.11,

(a) Each Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Base Rate plus the Applicable Margin.

(b) Each Eurodollar Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Eurodollar Rate determined for such Interest Period plus the Applicable Margin.

(c) The Borrower promises to pay interest on each Revolving Credit Loan in arrears on each Interest Payment Date with respect thereto.

2.6. REQUESTS FOR REVOLVING CREDIT LOANS. The Borrower shall give to the Agent written notice in the form of Exhibit C hereto (or telephonic notice confirmed in a writing in the form of Exhibit C hereto) of each Revolving Credit Loan requested hereunder (a "Loan Request") not later than (a) 11:00 a.m. (Boston time) on the proposed Drawdown Date of any Base Rate Loan and (b) 11:00 a.m. (Boston time) two (2) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Rate Loan. Each such notice shall specify (i) the principal amount of the Revolving Credit Loan requested, (ii) the proposed Drawdown Date of such Revolving Credit Loan, (iii) the Interest Period for such Revolving Credit Loan and (iv) the Type of such Revolving Credit Loan. Promptly upon receipt of any such notice, the Agent shall notify each of the Banks thereof. Each Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Revolving Credit Loan requested from the Banks on the proposed Drawdown Date. Each Loan Request shall for a Base Rate Loan shall be in a minimum aggregate amount of \$1,000,000 or a larger integral multiple of \$100,000 in excess thereof, and each Loan Request for a Eurodollar Rate Loan shall be in a minimum aggregate amount of \$5,000,000 or a larger integral multiple of \$1,000,000 in excess thereof.

## 2.7. CONVERSION OPTIONS.

### 2.7.1. CONVERSION TO DIFFERENT TYPE OF REVOLVING CREDIT LOAN.

The Borrower may elect from time to time to convert any outstanding Revolving Credit Loan to a Revolving Credit Loan of another Type, provided that (a) with respect to any such conversion of a Revolving Credit Loan to a Base Rate Loan, the Borrower shall give the Agent at least one (1) Business Days prior written notice of such election; (b) with respect to any such conversion of a Base Rate Loan to a Eurodollar Rate Loan, the Borrower shall give the Agent at least two (2) Eurodollar Business Days prior written notice of such election; (c) with respect to any such conversion of a Eurodollar Rate Loan into a Revolving Credit Loan of another Type, such conversion shall only be made on the last day of the Interest Period with respect thereto; and (d) no Revolving Credit Loan may be converted into a Eurodollar Rate Loan for an Interest Period of more than thirty (30) days if at the date of such conversion the Borrower cannot satisfy the conditions set forth in ss.13 hereof; and (e) no Revolving Credit Loan may be converted into a Eurodollar Rate Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Bank shall take such action as is necessary to transfer its Commitment Percentage of such Revolving Credit Loans to its Domestic Lending Office or its Eurodollar Lending Office, as the case may be. All or any part of outstanding Revolving Credit Loans of any Type may be converted into a Revolving Credit Loan of another Type as provided herein, provided that any partial conversion into a Base Rate Loan shall be in an aggregate principal amount of \$1,000,000 or a larger integral multiple of \$100,000 in excess thereof, and any partial conversion into a Eurodollar Rate Loan shall be in an aggregate principal amount of \$5,000,000 or a larger integral multiple of \$1,000,000 in excess thereof. Each Conversion Request relating to the conversion of a Revolving Credit Loan to a Eurodollar Rate Loan shall be irrevocable by the Borrower.

### 2.7.2. CONTINUATION OF TYPE OF REVOLVING CREDIT LOAN.

Any Revolving Credit Loan of any Type may be continued as a Revolving Credit Loan of the same Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in ss.2.7.1; provided that no Eurodollar Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default; and provided, further, to the extent any Revolving Credit Loan was converted or continued as a Eurodollar Rate Loan on a date when the Borrower was unable to satisfy the conditions set forth in ss.13 hereof, such Loan may not be continued as such if on the date of such conversion the Borrower remains unable to satisfy the conditions set forth in ss.13 hereof, but shall be automatically converted to a Base Rate Loan on the last day of the Interest Period relating thereto. In the event that the Borrower fails to provide any such notice with respect to the continuation of any Eurodollar Rate Loan as such, then such Eurodollar Rate Loan shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto. The Agent

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shall notify the Banks promptly when any such automatic conversion contemplated by this ss.2.7 is scheduled to occur.

2.7.3. EURODOLLAR RATE LOANS. Any conversion to or from Eurodollar Rate Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all Eurodollar Rate Loans having the same Interest Period shall not be less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof. In addition, there shall not be more than fifteen (15) Eurodollar Rate Loans outstanding at any one time.

## 2.8. FUNDS FOR REVOLVING CREDIT LOAN.

2.8.1. FUNDING PROCEDURES. Not later than 1:00 p.m. (Boston time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Banks will make available to the Agent, at the Agent's Head Office, in immediately available funds, the amount of such Bank's Commitment Percentage of the amount of the requested Revolving Credit Loans. Upon receipt from each Bank of such amount, and upon receipt of the documents required by ss.ss.12 and 13 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Agent will make available to the Borrower the aggregate amount of such Revolving Credit Loans made available to the Agent by the Banks. The failure or refusal of any Bank to make available to the Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Revolving Credit Loans shall not relieve any other Bank from its several obligation hereunder to make available to the Agent the amount of such other Bank's Commitment Percentage of any requested Revolving Credit Loans.

2.8.2. ADVANCES BY AGENT. The Agent may, unless notified to the contrary by any Bank prior to a Drawdown Date, assume that such Bank has made available to the Agent on such Drawdown Date the amount of such Bank's Commitment Percentage of the Revolving Credit Loans to be made on such Drawdown Date, and the Agent may (but it shall not be required to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Bank makes available to the Agent such amount on a date after such Drawdown Date, such Bank shall pay to the Agent on demand an amount equal to the product of (a) the average computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Agent for federal funds acquired by the Agent during each day included in such period, times (b) the amount of such Bank's Commitment Percentage of such Revolving Credit Loans, times (c) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Bank's Commitment Percentage of such Revolving Credit Loans shall become immediately available to the Agent, and the denominator of which is 360. A statement of the Agent submitted to such Bank with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to the Agent by such Bank. If the amount of such Bank's Commitment Percentage of such Revolving Credit Loans is not made available to the Agent by such Bank within three (3) Business Days following such Drawdown Date, the Agent shall be entitled to recover such amount from the

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Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans made on such Drawdown Date.

2.9. CHANGE IN BORROWING BASE. The Borrowing Base shall be determined monthly (or at such other interval as may be specified pursuant to ss.9.4(e)) by the Agent by reference to the Borrowing Base Report delivered to the Banks and the Agent pursuant to ss.9.4(e) and other information obtained by or provided to the Agent. The Agent shall give to the Borrower written notice of any change in the Borrowing Base determined by the Agent. In the case of a reduction in the lending formula with respect to Eligible Accounts Receivable, such notice shall be effective thirty (30) days after its receipt by the Borrower, and in the case of any change in the general criteria for Eligible Accounts Receivable, such notice shall be effective upon its receipt by the Borrower. Prior to the time that such notice becomes effective the Borrowing Base shall be computed as it would have been computed in the absence of such notice.

### 3. REPAYMENT OF THE REVOLVING CREDIT LOANS.

3.1. MATURITY. The Borrower promises to pay on the Revolving Credit Loan Maturity Date, and there shall become absolutely due and payable on the Revolving Credit Loan Maturity Date, all of the Revolving Credit Loans outstanding on such date, together with any and all accrued and unpaid interest thereon.

3.2. MANDATORY REPAYMENTS OF REVOLVING CREDIT LOANS. If at any time the sum of the outstanding amount of the Revolving Credit Loans, the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the lesser of (a) the Total Commitment and (b) the Borrowing Base, then the Borrower shall immediately pay the amount of such excess to the Agent for the respective accounts of the Banks for application: first, to any Unpaid Reimbursement Obligations; second, to the Revolving Credit Loans; and third, to provide to the Agent cash collateral for Reimbursement Obligations as contemplated by ss.5.2(b) and (c). Each payment of any Unpaid Reimbursement Obligations or prepayment of Revolving Credit Loans shall be allocated among the Banks, in proportion, as nearly as practicable, to each Reimbursement Obligation or (as the case may be) the respective unpaid principal amount of each Bank's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior payments or repayments not exactly in proportion.

3.3. OPTIONAL REPAYMENTS OF REVOLVING CREDIT LOANS. The Borrower shall have the right, at its election, to repay the outstanding amount of the Revolving Credit Loans, as a whole or in part, at any time without penalty or premium, but subject to ss.6.10. The Borrower shall give the Agent, no later than 1:00 p.m., Boston time, at least one (1) Business Day prior written notice of any proposed prepayment pursuant to this ss.3.3 of Base Rate Loans, and two (2) Eurodollar Business Days notice of any proposed prepayment pursuant to this ss.3.3 of Eurodollar Rate Loans, in each case specifying the proposed date of prepayment of Revolving Credit Loans and the principal amount to be prepaid. Each such partial prepayment of the Revolving Credit Loans shall be in a minimum amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall be applied, in the absence of instruction by the Borrower, first to the principal of Base Rate Loans and then to the principal of Eurodollar Rate Loans. Each partial prepayment shall be allocated among the Banks, in proportion, as nearly as practicable, to the respective unpaid principal

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amount of each Bank's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

#### 4. THE TERM LOAN.

4.1. COMMITMENT TO LEND. Subject to the terms and conditions set forth in this Credit Agreement, each Bank agrees to lend to the Borrower on the Closing Date the amount of its Commitment Percentage of the principal amount of \$50,000,000.

4.2. THE TERM NOTES. The Term Loan shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit D hereto (each a "Term Note"), dated the Closing Date and completed with appropriate insertions. One Term Note shall be payable to the order of each Bank in a principal amount equal to such Bank's Commitment Percentage of the Term Loan and representing the obligation of the Borrower to pay to such Bank such principal amount or, if less, the outstanding amount of such Bank's Commitment Percentage of the Term Loan, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Bank to make or cause to be made a notation on such Bank's Term Note Record reflecting the original principal amount of such Bank's Commitment Percentage of the Term Loan and, at or about the time of such Bank's receipt of any principal payment on such Bank's Term Note, an appropriate notation on such Bank's Term Note Record reflecting such payment. The aggregate unpaid amount set forth on such Bank's Term Note Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount on such Bank's Term Note Record shall not affect the obligations of the Borrower hereunder or under any Term Note to make payments of principal of and interest on any Term Note when due.

4.3. SCHEDULE OF INSTALLMENT PAYMENTS OF PRINCIPAL OF TERM LOAN. The Borrower promises to pay to the Agent for the account of the Banks the principal amount of the Term Loan in one payment of \$50,000,000, which payment shall be due and payable on the Term Loan Maturity Date in an amount equal to the unpaid balance of the Term Loan.

4.4. OPTIONAL PREPAYMENT OF TERM LOAN. The Borrower shall have the right at any time to prepay the Term Notes on or before the Term Loan Maturity Date, as a whole, or in part, upon not less than five (5) Business Days prior written notice to the Agent, without premium or penalty but subject to ss.6.10, provided that (a) each partial prepayment shall be in the principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and (b) each partial prepayment shall be allocated among the Banks, in proportion, as nearly as practicable, to the respective outstanding amount of each Bank's Term Note, with adjustments to the extent practicable to equalize any prior prepayments not exactly in proportion. Any prepayment of principal of the Term Loan shall include all interest accrued to the date of prepayment and shall be applied against the scheduled installments of principal due on the Term Loan in the inverse order of maturity. No amount repaid with respect to the Term Loan may be reborrowed.

#### 4.5. INTEREST ON TERM LOAN.

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4.5.1. INTEREST RATES. Except as otherwise provided in ss.6.11, the Term Loan shall bear interest during each Interest Period relating to all or any portion of the Term Loan at the following rates:

(a) To the extent that all or any portion of the Term Loan bears interest during such Interest Period at the Base Rate, the Term Loan or such portion shall bear interest during such Interest Period at the rate per annum equal to the Base Rate plus the Applicable Margin.

(b) To the extent that all or any portion of the Term Loan bears interest during such Interest Period at the Eurodollar Rate, the Term Loan or such portion shall bear interest during such Interest Period at the rate of per annum equal to the Eurodollar Rate determined for such Interest Period plus the Applicable Margin.

The Borrower promises to pay interest on the Term Loan or any portion thereof outstanding during each Interest Period in arrears on each Interest Payment Date applicable to such Interest Period.

4.5.2. NOTIFICATION BY BORROWER. The Borrower shall notify the Agent, such notice to be irrevocable, at least three (3) Eurodollar Business Days prior to the Drawdown Date of the Term Loan if all or any portion of the Term Loan is to bear interest at the Eurodollar Rate. After the Term Loan has been made, the provisions of ss.2.7 shall apply mutatis mutandis with respect to all or any portion of the Term Loan so that the Borrower may have the same interest rate options with respect to all or any portion of the Term Loan as it would be entitled to with respect to the Revolving Credit Loans.

4.5.3. AMOUNTS, ETC. Any portion of the Term Loan bearing interest at the Eurodollar Rate relating to any Interest Period shall be in the amount of \$5,000,000 or an integral multiple thereof. No Interest Period relating to the Term Loan or any portion thereof bearing interest at the Eurodollar Rate shall extend beyond the date on which a regularly scheduled installment payment of the principal of the Term Loan is to be made unless a portion of the Term Loan at least equal to such installment payment has an Interest Period ending on such date or is then bearing interest at the Base Rate.

## 5. LETTERS OF CREDIT.

### 5.1. LETTER OF CREDIT COMMITMENTS.

5.1.1. COMMITMENT TO ISSUE LETTERS OF CREDIT. Subject to the terms and conditions hereof and the execution and delivery by the Borrower of a letter of credit application on the Agent's customary form (a "Letter of Credit Application"), the Agent on behalf of the Banks and in reliance upon the agreement of the Banks set forth in ss.5.1.4 and upon the representations and warranties of the Borrower contained herein, agrees, in its individual capacity, to issue, extend and renew for the account of the Borrower one or more standby letters of credit (individually, a "Letter of Credit"), denominated in Dollars or any Optional Currency in such form

as may be requested from time to time by the Borrower and agreed to by the Agent; provided, however, that, after giving effect to such request, (a) the sum of the Dollar Equivalent of the aggregate Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not exceed \$100,000,000 at any one time and (b) the sum of the Dollar Equivalent (i) of the Maximum Drawing Amount on all Letters of Credit, (ii) of all Unpaid Reimbursement Obligations, and (iii) of the amount of all Revolving Credit Loans outstanding shall not exceed the lesser of (A) the Total Commitment and (B) the Borrowing Base. Notwithstanding the foregoing, the Agent shall have no obligation to issue any Letter of Credit to support or secure any Indebtedness of the Borrower or any of its Subsidiaries to the extent that such Indebtedness was incurred prior to the proposed issuance date of such Letter of Credit, unless in any such case the Borrower demonstrates to the satisfaction of the Agent that (x) such prior incurred Indebtedness were then fully secured by a prior perfected and unavoidable security interest in collateral provided by the Borrower or such Subsidiary to the proposed beneficiary of such Letter of Credit or (y) such prior incurred Indebtedness were then secured or supported by a letter of credit issued for the account of the Borrower or such Subsidiary and the reimbursement obligation with respect to such letter of credit was fully secured by a prior perfected and unavoidable security interest in collateral provided to the issuer of such letter of credit by the Borrower or such Subsidiary.

5.1.2. LETTER OF CREDIT APPLICATIONS. Each Letter of Credit Application shall be completed to the satisfaction of the Agent. In the event that any provision of any Letter of Credit Application shall be inconsistent with any provision of this Credit Agreement, then the provisions of this Credit Agreement shall, to the extent of any such inconsistency, govern.

5.1.3. TERMS OF LETTERS OF CREDIT. Each Letter of Credit issued, extended or renewed hereunder shall, among other things, (a) provide for the payment of sight drafts for honor thereunder when presented in accordance with the terms thereof and when accompanied by the documents described therein, (b) have an expiry date no later than the date which is fourteen (14) days (or, if the Letter of Credit is confirmed by a confirmer or otherwise provides for one or more nominated persons, forty-five (45) days) prior to the Revolving Credit Loan Maturity Date and (c) have an expiry date no longer than one (1) year from the date of issuance. Each Letter of Credit so issued, extended or renewed shall be subject to the Uniform Customs.

5.1.4. REIMBURSEMENT OBLIGATIONS OF BANKS. Each Bank severally agrees that it shall be absolutely liable, without regard to the occurrence of any Default or Event of Default or any other condition precedent whatsoever, to the extent of such Bank's Commitment Percentage, to reimburse the Agent on demand for the amount of each draft paid by the Agent under each Letter of Credit to the extent that such amount is not reimbursed by the Borrower pursuant to ss.5.2 (such agreement for a Bank being called herein the "Letter of Credit Participation" of such Bank).

5.1.5. PARTICIPATIONS OF BANKS. Each such payment made by a Bank shall be treated as the purchase by such Bank of a participating interest in the Borrower's Reimbursement Obligation under ss.5.2 in an amount equal to such payment. Each

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Bank shall share in accordance with its participating interest in any interest which accrues pursuant to ss.5.2.

5.2. REIMBURSEMENT OBLIGATION OF THE BORROWER. In order to induce the Agent to issue, extend and renew each Letter of Credit and the Banks to participate therein, the Borrower hereby agrees to reimburse or pay to the Agent, for the account of the Agent or (as the case may be) the Banks, with respect to each Letter of Credit issued, extended or renewed by the Agent hereunder,

(a) except as otherwise expressly provided in ss.5.2(b) and (c), on each date that any draft presented under such Letter of Credit is honored by the Agent, or the Agent otherwise makes a payment with respect thereto, (i) the Dollar Equivalent of the amount paid by the Agent under or with respect to such Letter of Credit, and (ii) the Dollar Equivalent of the amount of any taxes, fees, charges or other costs and expenses whatsoever incurred by the Agent or any Bank in connection with any payment made by the Agent or any Bank under, or with respect to, such Letter of Credit,

(b) upon the reduction (but not termination) of the Total Commitment to an amount less than the Maximum Drawing Amount, an amount equal to such difference, which amount shall be held by the Agent for the benefit of the Banks and the Agent as cash collateral for all Reimbursement Obligations, and

(c) upon the termination of the Total Commitment, or the acceleration of the Reimbursement Obligations with respect to all Letters of Credit in accordance with ss.14, an amount equal to the Dollar Equivalent of then Maximum Drawing Amount on all Letters of Credit, which amount shall be held by the Agent for the benefit of the Banks and the Agent as cash collateral for all Reimbursement Obligations.

Each such payment shall be made to the Agent at the Agent's Head Office in immediately available funds. Interest on any and all amounts remaining unpaid by the Borrower under this ss.5.2 at any time from the date such amounts become due and payable (whether as stated in this ss.5.2, by acceleration or otherwise) until payment in full (whether before or after judgment) shall be payable to the Agent on demand at the rate specified in ss.6.11 for overdue principal on the Revolving Credit Loans.

5.3. LETTER OF CREDIT PAYMENTS. If any draft shall be presented or other demand for payment shall be made under any Letter of Credit, the Agent shall notify the Borrower of the date and amount of the draft presented or demand for payment and of the date and time when it expects to pay such draft or honor such demand for payment. If the Borrower fails to reimburse the Agent as provided in ss.5.2 on or before the date that such draft is paid or other payment is made by the Agent, the Agent may at any time thereafter notify the Banks of the amount of any such Unpaid Reimbursement Obligation and shall specify such amount in Dollars (which, to the extent of any Letter of Credit issued in an Optional Currency, is based upon the actual exchange rate at which the Agent anticipates being able to obtain the applicable Optional Currency on the date payment is to be made by the Banks, with any excess payment being refunded to the Banks and any deficiency being payable by

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such Banks) required from each of the Banks. No later than 3:00 p.m. (Boston time) on the Business Day next following the receipt of such notice, each Bank shall make available to the Agent, at the Agent's Head Office, in immediately available funds, such Bank's Commitment Percentage of such Unpaid Reimbursement Obligation, together with an amount equal to the product of (a) the average, computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Agent for federal funds acquired by the Agent during each day included in such period, times (b) the amount equal to such Bank's Commitment Percentage of such Unpaid Reimbursement Obligation, times (c) a fraction, the numerator of which is the number of days that elapse from and including the date the Agent paid the draft presented for honor or otherwise made payment to the date on which such Bank's Commitment Percentage of such Unpaid Reimbursement obligation shall become immediately available to the Agent, and the denominator of which is 360. The responsibility of the Agent to the Borrower and the Banks shall be only to determine that the documents (including each draft) delivered under each Letter of Credit in connection with such presentment shall be in conformity in all material respects with such Letter of Credit. From and after such purchase of the applicable Letter of Credit Participation, such Unpaid Reimbursement Obligations shall be deemed to have been converted into Base Rate Loans made by the Banks, and all amounts from time to time accruing, and all amounts from time to time payable, on account of such Unpaid Reimbursement Obligations shall be payable in Dollars as if such Letter of Credit had originally been issued in Dollars.

5.4. OBLIGATIONS ABSOLUTE. The Borrower's obligations under this ss.5 shall be absolute and unconditional under any and all circumstances and irrespective of the occurrence of any Default or Event of Default or any condition precedent whatsoever or any setoff, counterclaim or defense to payment which the Borrower may have or have had against the Agent, any Bank or any beneficiary of a Letter of Credit. The Borrower further agrees with the Agent and the Banks that the Agent and the Banks shall not be responsible for, and the Borrower's Reimbursement Obligations under ss.5.2 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among the Borrower, the beneficiary of any Letter of Credit or any financing institution or other party to which any Letter of Credit may be transferred or any claims or defenses whatsoever of the Borrower against the beneficiary of any Letter of Credit or any such transferee. The Agent and the Banks shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit. The Borrower agrees that any action taken or omitted by the Agent or any Bank under or in connection with each Letter of Credit and the related drafts and documents, if done in good faith, shall be binding upon the Borrower and shall not result in any liability on the part of the Agent or any Bank to the Borrower.

5.5. RELIANCE BY ISSUER. To the extent not inconsistent with ss.5.4, the Agent shall be entitled to rely, and shall be fully protected in relying upon, any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any

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action under this Agreement unless it shall first have received such advice or concurrence of the Majority Banks as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement in accordance with a request of the Majority Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Banks and all future holders of the Revolving Credit Notes or of a Letter of Credit Participation.

5.6. LETTER OF CREDIT FEE. The Borrower shall pay quarterly in arrears on the last day of each calendar quarter following the issuance, extension or renewal of any Letter of Credit and at such other time or times as such charges are customarily made by the Agent, pay a fee (in each case, a "Letter of Credit Fee") to the Agent in respect of each Letter of Credit issued pursuant to this Credit Agreement, calculated at the applicable rate set forth in the definition of Applicable Margin under the column headed "Letter of Credit Fees" per annum on the average daily undrawn face amount of each such Letter of Credit which shall be for the accounts of the Banks in accordance with their respective Commitment Percentages, plus an amount equal to 1/8% per annum on the face amount of such Letter of Credit which shall be for the account of the Agent as an issuing fee. In respect of each Letter of Credit, the Borrower shall also pay to the Agent for the Agent's own account, on the date of any issuance, extension, renewal or amendment of any Letter of Credit, or at such time or times as such charges are customarily made to the Agent; plus the Agent's customary issuance, negotiation or document examination or other administrative fees as in effect from time to time.

#### 6. CERTAIN GENERAL PROVISIONS.

6.1. CLOSING FEE. The Borrower agrees to pay to the Agent a closing fee in the amounts and at the times set forth in the Fee Letter.

6.2. AGENT'S FEE. The Borrower shall pay to the Agent an agent's fee in the amounts and at the times set forth in the Fee Letter.

#### 6.3. FUNDS FOR PAYMENTS.

6.3.1. PAYMENTS TO AGENT. All payments of principal, interest, Reimbursement Obligations, commitment fees, Letter of Credit Fees and any other amounts due hereunder or under any of the other Loan Documents shall be made to the Agent, for the respective accounts of the Banks and the Agent, at the Agent's Head Office or at such other location in the Boston, Massachusetts, area that the Agent may from time to time designate, in each case in immediately available funds.

6.3.2. NO OFFSET, ETC. All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is

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compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Agent, for the account of the Banks or (as the case may be) either of the Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Banks or either of the Agent to receive the same net amount which the Banks or either of the Agent would have received on such due date had no such obligation been imposed upon the Borrower; provided, however, the Borrower shall have no obligations to make any such payment to any Bank which is organized under the laws of any jurisdiction other than the United States or any state thereof in respect of United States federal withholding taxes unless such Bank shall have delivered to the Borrower a duly completed and executed IRS form 1001 or 4224 that shows complete exemption of such Bank from such withholding tax. The Borrower will deliver promptly to the Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

### 6.3.3. CURRENCY MATTERS.

6.3.3.1. CURRENCY OF ACCOUNT. (a) Dollars are the currency of account and payment for each and every sum at any time due from the Borrower hereunder; provided that:

(i) each payment in respect of costs, expenses and indemnities shall be made in the currency in which the same were incurred; and

(ii) any amount expressed to be payable in a currency other than Dollars shall be paid in that other currency.

(b) No payment to the Agent or any Bank (whether under any judgment or court order or otherwise) shall discharge the obligation or liability in respect of which it was made unless and until the Agent or such Bank shall have received payment in full in the currency in which such obligation or liability was incurred, and to the extent that the amount of any such payment shall, on actual conversion into such currency, fall short of such obligation or liability actual or contingent expressed in that currency, the Borrower shall indemnify and hold harmless the Agent or such Bank, as the case may be, with respect to the amount of the shortfall.

### 6.3.3.2. CURRENCY FLUCTUATIONS.

(a) Not later than 1:00 p.m. (Boston time) on the last Business Day of each calendar month (the "Calculation Date"), the Agent shall determine the Dollar Equivalent as of such date. The Dollar Equivalent so determined shall become effective on the first Business Day immediately following such determination (a "Reset Date") and shall remain effective until the next succeeding Reset Date.

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(b) If, on any Reset Date and on the Revolving Credit Loan Maturity Date, the aggregate outstanding amount (expressed in Dollars) of all Revolving Credit Loans, the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date, exceeds the lesser of (i) Total Commitment and (ii) the Borrowing Base by more than \$100,000, then (i) the Agent shall give notice thereof to the Borrower and the Banks and (ii) within two (2) Business Days thereafter, the Borrower shall repay or prepay the Revolving Credit Loans in accordance with this Credit Agreement in an aggregate principal amount such that, after giving effect thereto, the aggregate outstanding amount (expressed in Dollars) of all Revolving Credit Loans and the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date, no longer exceeds the lesser of (i) the Total Commitment (expressed in Dollars) and (ii) the Borrowing Base.

(c) Without limiting subsection ss.6.3.3.2(b), if, on any day prior to the Revolving Credit Loan Maturity Date, the aggregate outstanding amount (expressed in Dollars) of all Revolving Credit Loans and the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date, exceeds the lesser of (i) the Total Commitment and (ii) the Borrowing Base by five percent (5%) or more, then (i) the Agent shall give notice thereof to the Borrower and the Banks and (ii) within two (2) Business Days thereafter, the Borrower shall repay or prepay the Revolving Credit Loans in accordance with this Credit Agreement in an aggregate principal amount such that, after giving effect thereto, the aggregate outstanding amount (expressed in Dollars) of all Revolving Credit Loans and the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date, no longer exceeds the lesser of (i) the Total Commitment (expressed in Dollars) and (ii) the Borrowing Base. Nothing set forth in this ss.6.3.3.2 shall be construed to require the Agent to calculate daily compliance under this ss.6.3.3.2 unless expressly requested to do so by a Bank.

(d) If on any Reset Date, the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date (expressed in Dollars) exceeds the Letter of Credit sublimit set forth in ss.4.1 (expressed in Dollars) by more than five percent (5%), then the Borrower shall immediately upon demand provide cash collateral to the Agent such that, after giving effect thereto, the aggregate outstanding amount of the sum of the Maximum Drawing Amount on such date and all Unpaid Reimbursement Obligations on such date (expressed in Dollars) no longer exceed the Letter of Credit sublimit set forth in ss.4.1.

6.4. COMPUTATIONS. All computations of interest on Base Rate Loans shall be based on a 365-day year and paid for the actual number of days elapsed. All computations of interest on the Eurodollar Rate Loans and of Commitment Fees, Letter of Credit Fees or other fees shall be based on a 360-day year and paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "Interest Period" with respect to

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Eurodollar Rate Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the Records from time to time shall be considered correct and binding on the Borrower unless within five (5) Business Days after receipt of any notice by the Agent or any of the Banks of such outstanding amount, the Agent or such Bank shall notify the Borrower to the contrary.

6.5. INABILITY TO DETERMINE EURODOLLAR RATE. In the event, prior to the commencement of any Interest Period relating to any Eurodollar Rate Loan, the Agent shall determine or be notified by the Majority Banks that adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate that would otherwise determine the rate of interest to be applicable to any Eurodollar Rate Loan during any Interest Period, the Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Banks) to the Borrower and the Banks. In such event (a) any Loan Request or Conversion Request with respect to Eurodollar Rate Loans shall be automatically withdrawn and shall be deemed a request for Base Rate Loans, (b) each Eurodollar Rate Loan will automatically, on the last day of the then current Interest Period relating thereto, become a Base Rate Loan, and (c) the obligations of the Banks to make Eurodollar Rate Loans shall be suspended until the Agent or the Majority Banks determines that the circumstances giving rise to such suspension no longer exist, whereupon the Agent or, as the case may be, the Agent upon the instruction of the Majority Banks, shall so notify the Borrower and the Banks.

6.6. ILLEGALITY. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Rate Loans, such Bank shall forthwith give notice of such circumstances to the Borrower and the other Banks and thereupon (a) the commitment of such Bank to make Eurodollar Rate Loans or convert Base Rate Loans to Eurodollar Rate Loans shall forthwith be suspended and (b) such Bank's Loans then outstanding as Eurodollar Rate Loans, if any, shall be converted automatically to Base Rate Loans on the last day of each Interest Period applicable to such Eurodollar Rate Loans or within such earlier period as may be required by law. The Borrower hereby agrees promptly to pay the Agent for the account of such Bank, upon demand by such Bank, any additional amounts necessary to compensate such Bank for any costs incurred by such Bank in making any conversion in accordance with this ss.6.6, including any interest or fees payable by such Bank to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder.

6.7. ADDITIONAL COSTS, ETC. If any present or future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Bank or the Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

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(a) subject any Bank or the Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, such Bank's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Bank or the Agent or based upon any United States withholding tax for any non U.S. Bank to the extent such non-U.S. Bank failed to comply with ss.6.3.2), or

(b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Bank of the principal of or the interest on any Loans or any other amounts payable to any Bank or the Agent under this Credit Agreement or any of the other Loan Documents, or

(c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or letters of credit issued by, or commitments of an office of any Bank, or

(d) impose on any Bank or the Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, the Loans, such Bank's Commitment, or any class of loans, letters of credit or commitments of which any of the Loans or such Bank's Commitment forms a part, and the result of any of the foregoing is

(i) to increase the cost to any Bank of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Bank's Commitment or any Letter of Credit, or

(ii) to reduce the amount of principal, interest, Reimbursement Obligation or other amount payable to such Bank or the Agent hereunder on account of such Bank's Commitment, any Letter of Credit or any of the Loans, or

(iii) to require such Bank or the Agent to make any payment or to forego any interest or Reimbursement Obligation or other sum payable hereunder, the amount of which payment or foregone interest or Reimbursement Obligation or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Bank or the Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, upon demand made by such Bank or (as the case may be) the Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Bank or the Agent such additional amounts as will be sufficient to compensate such Bank or the Agent for such additional cost, reduction, payment or foregone interest or Reimbursement Obligation or other sum.

6.8. CAPITAL ADEQUACY. If after the date hereof any Bank or the Agent determines that (a) the adoption of or change in any law, governmental rule, regulation, policy,

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guideline or directive (whether or not having the force of law) regarding capital requirements for banks or bank holding companies or any change in the interpretation or application thereof by a court or governmental authority with appropriate jurisdiction, or (b) compliance by such Bank or the Agent or any corporation controlling such Bank or the Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has the effect of reducing the return on such Bank's or the Agent's commitment with respect to any Loans to a level below that which such Bank or the Agent could have achieved but for such adoption, change or compliance (taking into consideration such Bank's or the Agent's then existing policies with respect to capital adequacy and assuming full utilization of such entity's capital) by any amount deemed by such Bank or (as the case may be) the Agent to be material, then such Bank or the Agent may notify the Borrower of such fact. To the extent that the amount of such reduction in the return on capital is not reflected in the Base Rate, the Borrower and such Bank shall thereafter attempt to negotiate in good faith, within thirty (30) days of the day on which the Borrower receives such notice, an adjustment payable hereunder that will adequately compensate such Bank in light of these circumstances. If the Borrower and such Bank are unable to agree to such adjustment within thirty (30) days of the date on which the Borrower receives such notice, then commencing on the date of such notice (but not earlier than the effective date of any such increased capital requirement), the fees payable hereunder shall increase by an amount that will, in such Bank's reasonable determination, provide adequate compensation. Each Bank shall allocate such cost increases among its customers in good faith and on an equitable basis.

6.9. CERTIFICATE. A certificate setting forth any additional amounts payable pursuant to ss.ss.6.7 or 6.8 and a brief explanation of such amounts which are due, submitted by any Bank or the Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

6.10. INDEMNITY. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from and against any loss, cost or expense (excluding loss of anticipated profits) that such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on any Eurodollar Rate Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain its Eurodollar Rate Loans, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Loan Request, notice (in the case of all or any portion of the Term Loan pursuant to ss.4.5.2) or a Conversion Request relating thereto in accordance with ss.2.6, ss.2.7 or ss.4.5 or (c) the making of any payment of a Eurodollar Rate Loan or the making of any conversion of any such Eurodollar Rate Loan to a Base Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain any such Eurodollar Rate Loans.

6.11. INTEREST AFTER DEFAULT.

6.11.1. OVERDUE AMOUNTS. Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable

hereunder or under any of the other Loan Documents shall bear interest compounded monthly and payable on demand at a rate per annum equal to two percent (2%) above the Base Rate until such amount shall be paid in full (after as well as before judgment).

6.11.2. AMOUNTS NOT OVERDUE. During the continuance of a Default or an Event of Default the principal of the Loans not overdue shall, until such Default or Event of Default has been cured or remedied or such Default or Event of Default has been waived by the Majority Banks pursuant to ss.27, bear interest at a rate per annum equal to the greater of (a) four percent (4%) above the rate of interest otherwise applicable to such Revolving Credit Loans pursuant to ss.2.5 and the Term Loan pursuant to ss.4.5 and (b) the rate of interest applicable to overdue principal pursuant to ss.6.11.1.

#### 7. COLLATERAL SECURITY AND GUARANTIES.

7.1. SECURITY OF BORROWER. The Obligations shall be secured by a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets (other than Real Estate) of the Borrower, whether now owned or hereafter acquired, pursuant to the terms of the Security Documents to which the Borrower is a party, including, without limitation, a pledge by the Borrower of 100% of the capital stock of each Domestic Subsidiary and 66% of the capital stock of each Foreign Subsidiary.

7.2. GUARANTIES AND SECURITY OF SUBSIDIARIES. The Obligations shall also be guaranteed pursuant to the terms of the Guaranty. The obligations of the Guarantors under the Guaranty shall be in turn secured by a perfected first priority security interest (subject only to Permitted Liens entitled to priority under applicable law) in all of the assets (other than Real Estate) of each such Guarantor, whether now owned or hereafter acquired, pursuant to the terms of the Security Documents to which such Guarantor is a party.

7.3. CHARGE OVER SHARES IN MALAYSIAN FOREIGN SUBSIDIARY. The charge over shares in WD Malyasia executed by the Borrower as Collateral shall be subject to the relevant governmental approvals being obtained.

#### 8. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants to the Banks and the Agent as follows:

##### 8.1. CORPORATE AUTHORITY.

8.1.1. INCORPORATION; GOOD STANDING. Each of the Borrower and its Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, (b) has all requisite corporate power to own its property and conduct its business as now conducted and as presently contemplated, and (c) is in good standing as a foreign corporation and is duly authorized to do business in each jurisdiction where such qualification is necessary except where a failure to be so qualified would not have a materially

adverse effect on the business, assets or financial condition of the Borrower or the Borrower and such Subsidiary, taken as a whole.

8.1.2. AUTHORIZATION. The execution, delivery and performance of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (a) are within the corporate authority of such Person, (b) have been duly authorized by all necessary corporate proceedings, (c) do not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which the Borrower or any of its Subsidiaries is subject or any judgment, order, writ, injunction, license or permit applicable to the Borrower or any of its Subsidiaries and (d) do not conflict with any provision of the corporate charter or bylaws of, or any agreement or other instrument binding upon, the Borrower or any of its Subsidiaries.

8.1.3. ENFORCEABILITY. The execution and delivery of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

8.2. GOVERNMENTAL APPROVALS. The execution, delivery and performance by the Borrower and any of its Domestic Subsidiaries of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Domestic Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained.

8.3 TITLE TO PROPERTIES: LEASES. Except as indicated on Schedule 8.3 hereto, the Borrower and its Subsidiaries own all of the assets reflected in the consolidated balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date), subject to no rights of others, including any mortgages, leases, conditional sales agreements, title retention agreements, liens or other encumbrances except Permitted Liens.

#### 8.4. FINANCIAL STATEMENTS AND PROJECTIONS.

8.4.1. FINANCIAL STATEMENTS. The Borrower and each of its Subsidiaries has a fiscal year which is the twelve months ending on the last Saturday of every June of each calendar year.

8.4.2. FINANCIAL STATEMENTS. There has been furnished to each of the Banks a consolidated balance sheet and statement of cash flow of the Borrower and

its Subsidiaries as at the Balance Sheet Date, and a consolidated statement of income of the Borrower and its Subsidiaries for the fiscal year then ended, certified by KPMG Peat Marwick. Such balance sheet and statement of income have been prepared in accordance with generally accepted accounting principles and fairly present the financial condition of the Borrower as at the close of business on the date thereof and the results of operations for the fiscal year then ended. There are no contingent liabilities of the Borrower or any of its Subsidiaries as of such date involving material amounts, known to the officers of the Borrower, which were not disclosed in such balance sheet and the notes related thereto.

8.4.3. PROJECTIONS. The projections of the annual operating budgets of the Borrower and its Subsidiaries on a consolidated basis, balance sheets and cash flow statements for the 1998 to 1999 fiscal years, copies of which have been delivered to each Bank, disclose all assumptions made with respect to general economic, financial and market conditions used in formulating such projections. To the knowledge of the Borrower or any of its Subsidiaries, no facts exist that (individually or in the aggregate) would result in any material change in any of such projections or to the cash flow statements delivered to the Banks. The projections are based upon reasonable estimates and assumptions, have been prepared on the basis of the assumptions stated therein and reflect the reasonable estimates of the Borrower and its Subsidiaries of the results of operations and other information projected therein.

8.5. NO MATERIAL CHANGES, ETC. Since December 27, 1997 there has occurred no materially adverse change in the financial condition or business of the Borrower and its Subsidiaries as shown on or reflected in the consolidated balance sheet of the Borrower and its Subsidiaries as at December 27, 1997, or the consolidated statement of income for the fiscal year then ended, other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of the Borrower or any of its Subsidiaries. Since December 27, 1997, neither the Borrower nor any of its Subsidiaries has made any Distributions which are prohibited by ss.10.4 hereof.

8.6. FRANCHISES, PATENTS, COPYRIGHTS, ETC. Each of the Borrower and its Subsidiaries possesses all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others where such conflict could reasonably be expected to have a materially adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries.

8.7. LITIGATION. Except as set forth in Schedule 8.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending against the Borrower or any of its Subsidiaries before any court, tribunal or administrative agency or board that, if adversely determined, might, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of the Borrower and its Subsidiaries or materially impair the right of the Borrower and its Subsidiaries, considered as a whole, to carry on business substantially as now conducted by them, or result in any substantial liability not adequately covered by insurance, or for which adequate reserves are not

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maintained on the consolidated balance sheet of the Borrower and its Subsidiaries, or which question the validity of this Credit Agreement or any of the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

8.8. NO MATERIALLY ADVERSE CONTRACTS, ETC. Neither the Borrower nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation that has or is expected in the future to have a materially adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries. Neither the Borrower nor any of its Subsidiaries is a party to any contract or agreement that has or is expected, in the judgment of the Borrower's officers, to have any materially adverse effect on the business of the Borrower or any of its Subsidiaries.

8.9. COMPLIANCE WITH OTHER INSTRUMENTS, LAWS, ETC. Neither the Borrower nor any of its Subsidiaries is in violation of any provision of its charter documents, bylaws, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that could result in the imposition of substantial penalties or materially and adversely affect the financial condition, properties or business of the Borrower or any of its Subsidiaries.

8.10. TAX STATUS. The Borrower and its Subsidiaries (a) have made or filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (b) have paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (c) have set aside on their books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Borrower know of no basis for any such claim.

8.11. NO EVENT OF DEFAULT. No Default or Event of Default has occurred and is continuing.

8.12. HOLDING COMPANY AND INVESTMENT COMPANY ACTS. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935; nor is it an "investment company", or an "affiliated company" or a "principal underwriter" of an "investment company", as such terms are defined in the Investment Company Act of 1940.

8.13. ABSENCE OF FINANCING STATEMENTS, ETC. Except with respect to Permitted Liens, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future lien on, or security interest in, any assets or property of the Borrower or any of its Subsidiaries or any rights relating thereto.

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8.14. PERFECTION OF SECURITY INTEREST. All filings, assignments, pledges and deposits of documents or instruments have been made and all other actions have been taken that are necessary or advisable, under applicable law, to establish and perfect the Agent's security interest in the Collateral. The Collateral and the Agent's rights with respect to the Collateral are not subject to any setoff, claims, withholdings or other defenses which could reasonably be expected to have a material adverse effect on the business, assets or financial condition of the Borrower or the Borrower and its Subsidiaries, taken as a whole, or the Agent's rights with respect to the Collateral. The Borrower or a Subsidiary of the Borrower which is a party to one of the Security Agreements is the owner of the Collateral free from any lien, security interest, encumbrance and any other claim or demand, except for Permitted Liens.

8.15. CERTAIN TRANSACTIONS. Except as set forth on Schedule 8.15 hereto and except for arm's length transactions pursuant to which the Borrower or any of its Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than the Borrower or such Subsidiary could obtain from third parties or which could otherwise have a material adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries, none of the officers, directors, or employees of the Borrower or any of its Subsidiaries is presently a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

#### 8.16. EMPLOYEE BENEFIT PLANS.

8.16.1. IN GENERAL. Each Employee Benefit Plan and each Guaranteed Pension Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions and the bonding of fiduciaries and other persons handling plan funds as required by ss.412 of ERISA. The Borrower has heretofore delivered to the Agent the most recently completed annual report, Form 5500, with all required attachments, and actuarial statement required to be submitted under ss.103(d) of ERISA, with respect to each Guaranteed Pension Plan.

8.16.2. TERMINABILITY OF WELFARE PLANS. No Employee Benefit Plan, which is an employee welfare benefit plan within the meaning of ss.3(1) or ss.3(2)(B) of ERISA, provides benefit coverage subsequent to termination of employment, except as required by Title I, Part 6 of ERISA or the applicable state insurance laws. The Borrower may terminate each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower without liability to any Person other than for claims arising prior to termination.

8.16.3. GUARANTEED PENSION PLANS. Each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of ss.302(f) of ERISA, or otherwise, has been timely made. No waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan, and neither the Borrower nor any ERISA Affiliate is obligated to or has posted security in connection with an amendment to a Guaranteed Pension Plan pursuant to ss.307 of ERISA or ss.401(a)(29) of the Code. No liability to the PBGC (other than required insurance premiums, all of which have been paid) has been incurred by the Borrower or any ERISA Affiliate with respect to any Guaranteed Pension Plan and there has not been any ERISA Reportable Event (other than an ERISA Reportable Event as to which the requirement of 30 days notice has been waived), or any other event or condition which presents a material risk of termination of any Guaranteed Pension Plan by the PBGC. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of ss.4001 of ERISA did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities.

8.16.4. MULTIEMPLOYER PLANS. Neither the Borrower nor any ERISA Affiliate has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under ss.4201 of ERISA or as a result of a sale of assets described in ss.4204 of ERISA. Neither the Borrower nor any ERISA Affiliate has been notified that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of ss.4241 or ss.4245 of ERISA or is at risk of entering reorganization or becoming insolvent, or that any Multiemployer Plan intends to terminate or has been terminated under ss.4041A of ERISA.

#### 8.17. USE OF PROCEEDS.

8.17.1. GENERAL. The proceeds of the Loans shall be used (a) to refinance existing Indebtedness of the Borrower and (b) for working capital and general corporate purposes. The Borrower will obtain Letters of Credit solely for working capital and general corporate purposes.

8.17.2. REGULATIONS U AND X. No portion of any Loan is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

8.17.3. INELIGIBLE SECURITIES. No portion of the proceeds of any Loans is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of (a) knowingly purchasing, or providing credit support for the purchase of, Ineligible

Securities from a Section 20 Subsidiary during any period in which such Section 20 Subsidiary makes a market in such Ineligible Securities, (b) knowingly purchasing, or providing credit support for the purchase of, during the underwriting or placement period, any Ineligible Securities being underwritten or privately placed by a Section 20 Subsidiary, or (c) making, or providing credit support for the making of, payments of principal or interest on Ineligible Securities underwritten or privately placed by a Section 20 Subsidiary and issued by or for the benefit of the Borrower or any Subsidiary or other Affiliate of the Borrower.

8.18. ENVIRONMENTAL COMPLIANCE. To the best of the Borrower's knowledge, based upon a reasonable investigation, the Borrower has determined that:

(a) none of the Borrower, its Subsidiaries or any operator of the Real Estate located in the United States or any operations thereon is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "Environmental Laws"), which violation would have a material adverse effect on the environment or the business, assets or financial condition of the Borrower or any of its Subsidiaries;

(b) neither the Borrower nor any of its Subsidiaries has received notice from any third party including, without limitation, any federal, state or local governmental authority, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any hazardous waste, as defined by 42 U.S.C. ss.6903(5), any hazardous substances as defined by 42 U.S.C. ss.9601(14), any pollutant or contaminant as defined by 42 U.S.C. ss.9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which any one of them has generated, transported or disposed of has been found at any site at which a federal, state or local agency or other third party has conducted or has ordered that any Borrower or any of its Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) except to the extent that the following would not have a material adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries, that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances;

(c) except as set forth on Schedule 8.18 attached hereto: (i) no portion of the Real Estate located in the United States has been used for the handling,

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processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws the noncompliance with which would have a material adverse effect on the business, assets or financial condition of the Borrower and its Subsidiaries; and no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate in violation of any Environmental Laws the noncompliance with which would have a material adverse effect on the business, assets or financial condition of the Borrower and its Subsidiaries; (ii) in the course of any activities conducted by the Borrower, its Subsidiaries or operators of its properties, no Hazardous Substances have been generated or are being used on the Real Estate located in the United States except in accordance in all material respects with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of the Borrower or its Subsidiaries, which releases would have a material adverse effect on the value of the business, assets or financial condition of the Borrower or any of its Subsidiaries; (iv) to the best of the Borrower's knowledge, there have been no releases on, upon, from or into any real property in the vicinity of any of the Real Estate located in the United States which, through soil or groundwater contamination, may have come to be located on, and which would have a material adverse effect on the value of, the Real Estate located in the United States; and (v) in addition, except to the extent that the following would not have a materially adverse effect on the business, assets or financial condition of the Borrower or any of its Subsidiaries, any Hazardous Substances that have been generated on any of the Real Estate located in the United States have been transported offsite only by carriers having an identification number issued by the EPA, treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrower's knowledge, operating in compliance with such permits and applicable Environmental Laws; and

(d) None of the Borrower and its Subsidiaries or any of the Real Estate located in the United States is subject to any applicable environmental law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any governmental agency or the recording or delivery to other Persons of an environmental disclosure document or statement by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the effectiveness of any other transactions contemplated hereby.

8.19. SUBSIDIARIES, ETC. Schedule 8.19(a) sets forth the only Subsidiaries of the Borrower. Except as set forth on Schedule 8.19(b) hereto, neither the Borrower nor any Subsidiary of the Borrower is engaged in any joint venture or partnership with any other Person.

8.20. CHIEF EXECUTIVE OFFICE. The Borrower's chief executive office is at 8105 Irvine Center Drive, Irvine, California 92618, at which location its books and records are kept.

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8.21. DISCLOSURE. None of this Credit Agreement or any of the other Loan Documents contains any untrue statement of a material fact or omits to state a material fact (known to the Borrower or any of its Subsidiaries in the case of any document or information not furnished by it or any of its Subsidiaries) necessary in order to make the statements herein or therein not misleading. There is no fact known to the Borrower or any of its Subsidiaries which materially adversely affects, or which is reasonably likely in the future to materially adversely affect, the business, assets, financial condition or prospects of the Borrower or any of its Subsidiaries, exclusive of effects resulting from changes in general economic conditions, legal standards or regulatory conditions.

8.22. INSURANCE. The Borrower and each of its Subsidiaries maintains with financially sound and reputable insurers insurance with respect to its properties and businesses against such casualties and contingencies as are in accordance with sound business practice, with the details of such coverage being more fully described on Schedule 8.22 hereto.

8.23. STATUS OF LOAN AS SENIOR DEBT. From and after such time as the Borrower has incurred or assumed any Subordinated Debt, all Indebtedness of the Borrower and its Subsidiaries to the Banks and the Agent in respect of the Loans and the Reimbursement Obligations constitutes "Superior Indebtedness", "Senior Indebtedness" or "Senior Debt" (or the analogous term used therein) under the terms of the Subordinated Debt Documents or any other instrument evidencing or pursuant to which there is issued Indebtedness which purports to be Subordinated Debt of the Borrower or any Subsidiary.

8.24. NO OTHER DESIGNATED SENIOR DEBT. From and after such time as the Borrower has incurred or assumed any Subordinated Debt, the Borrower has not designated any Indebtedness of the Borrower or any of its Subsidiaries as, and has no, "Designated Senior Debt" (or the analogous term used therein) for purposes of (and as defined in) the Subordinated Indenture, other than the Obligations.

#### 9. AFFIRMATIVE COVENANTS OF THE BORROWER.

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

9.1. PUNCTUAL PAYMENT. The Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, all Reimbursement Obligations, the Letter of Credit Fees, the Commitment Fees, the administrative fee and all other amounts provided for in this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is a party, all in accordance with the terms of this Credit Agreement and such other Loan Documents.

9.2. MAINTENANCE OF OFFICE. The Borrower will maintain its chief executive office at 8105 Irvine Center Drive, Irvine, California 92618, or at such other place in the United States of America as the Borrower shall designate upon written notice to the Agent,

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where notices, presentations and demands to or upon the Borrower in respect of the Loan Documents to which the Borrower is a party may be given or made.

9.3. RECORDS AND ACCOUNTS. The Borrower will (a) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with generally accepted accounting principles; (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves; and (c) at all times engage KPMG Peat Marwick or another independent certified public accountants satisfactory to the Agent as the independent certified public accountants of the Borrower and its Subsidiaries and will not permit more than thirty (30) days to elapse between the cessation of such firm's (or any successor firm's) engagement as the independent certified public accountant of the Borrower and its Subsidiaries and the appointment in such capacity of a successor firm as shall be satisfactory to the Agent.

9.4. FINANCIAL STATEMENTS, CERTIFICATES AND INFORMATION. The Borrower will deliver to each of the Banks:

(a) as soon as practicable, but in any event not later than ninety (90) days after the end of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such year, and the related consolidated statement of income and consolidated statement of cash flow for such year, each setting forth in comparative form the figures for the previous fiscal year and all such consolidated statements to be in reasonable detail, prepared in accordance with generally accepted accounting principles, and certified without qualification by KPMG Peat Marwick or by other independent certified public accountants satisfactory to the Agent, together with a written statement from such accountants to the effect that they have read a copy of this Credit Agreement, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default; provided that such accountants shall not be liable to the Banks for failure to obtain knowledge of any Default or Event of Default;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each of the fiscal quarters of the Borrower, copies of the unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarter, and the related consolidated statement of income and consolidated statement of cash flow for the portion of the Borrower's fiscal year then elapsed, all in reasonable detail and prepared in accordance with generally accepted accounting principles, together with a certification by the principal financial or accounting officer of the Borrower that the information contained in such financial statements fairly presents the financial position of the Borrower and its Subsidiaries on the date thereof (subject to year-end adjustments);

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(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, a statement certified by the principal financial or accounting officer of the Borrower in substantially the form of Exhibit E hereto (the "Compliance Certificate") and setting forth in reasonable detail computations evidencing compliance with the covenants contained in ss.11 and (if applicable) reconciliations to reflect changes in generally accepted accounting principles since the Balance Sheet Date;

(d) contemporaneously with the filing or mailing thereof, copies of all material of a financial nature filed with the Securities and Exchange Commission or sent to the stockholders of the Borrower;

(e) within thirty (30) days after the end of each calendar month ending on or prior to July 31, 1998 and fifteen (15) days after the end of each calendar month ending thereafter or at such earlier time as the Agent may reasonably request, a Borrowing Base Report setting for the Borrowing Base as at the end of such calendar month or such other date so requested by the Agent;

(f) within thirty (30) days after the end of each calendar month ending on or prior to July 31, 1998 and fifteen (15) days after the end of each calendar month ending thereafter, an Accounts Receivable aging report;

(g) as soon as practicable, but in any event not later than thirty (30) days prior to the end of each fiscal year, the budget of the Borrower for the next fiscal year, and from time to time upon the reasonable request of the Agent, projections of the Borrower and its Subsidiaries updating those projections delivered to the Banks and referred to in ss.8.4.3. or, if applicable, updating any later such projections delivered in response to this ss.9.4(g); and

(h) from time to time such other financial data and information (including accountants and management letters) as either of the Agent or any Bank may reasonably request.

#### 9.5. NOTICES.

9.5.1. DEFAULTS. The Borrower will promptly notify the Agent and each of the Banks in writing of the occurrence of any Default or Event of Default. If any Person shall give any notice or take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which the Borrower or any of its Subsidiaries is a party or obligor, whether as principal, guarantor, surety or otherwise, the Borrower shall forthwith give written notice thereof to the Agent and each of the Banks, describing the notice or action and the nature of the claimed default.

9.5.2. ENVIRONMENTAL EVENTS. The Borrower will promptly give notice to the Agent and each of the Banks (a) of any violation of any Environmental Law that the Borrower or any of its Subsidiaries reports in writing or is reportable by such Person in writing (or for which any written report supplemental to any oral report is

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made) to any federal, state or local environmental agency and (b) upon becoming aware thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency of potential environmental liability, of any federal, state or local environmental agency or board, that has the potential to materially affect the assets, liabilities, financial conditions or operations of the Borrower or any of its Subsidiaries, or the Agent's security interests pursuant to the Security Documents.

9.5.3. NOTIFICATION OF CLAIM AGAINST COLLATERAL. The Borrower will, immediately upon becoming aware thereof, notify the Agent and each of the Banks in writing of any setoff, claims (including with respect to the Real Estate, environmental claims), withholdings or other defenses to which any of the Collateral, or the Agent's rights with respect to the Collateral, are subject, if such setoff, claims, withholdings or defenses could reasonably be expected to have a material adverse effect in the assets, business or financial condition of the Borrower or the Borrower and its Subsidiaries taken as a whole or the Agent's rights with respect to the Collateral.

9.5.4. NOTICE OF LITIGATION AND JUDGMENTS. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Agent and each of the Banks in writing within fifteen (15) days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Borrower or any of its Subsidiaries or to which the Borrower or any of its Subsidiaries is or becomes a party involving an uninsured claim against the Borrower or any of its Subsidiaries that could reasonably be expected to have a materially adverse effect on the Borrower or the Borrower and any of its Subsidiaries, taken as a whole, and stating the nature and status of such litigation or proceedings. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Agent and each of the Banks, in writing, in form and detail satisfactory to the Agent, within ten (10) days of any judgment not covered by insurance, final or otherwise, against the Borrower or any of its Subsidiaries in an amount in excess of \$5,000,000.

9.6. CORPORATE EXISTENCE; MAINTENANCE OF PROPERTIES. The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and those of its Subsidiaries and will not, and will not cause or permit any of its Subsidiaries to, convert to a limited liability company. It (a) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (b) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (c) will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by them and in related businesses; provided that nothing in this ss.9.6 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties or any of those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its or their business and that do not in the

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aggregate materially adversely affect the business of the Borrower and its Subsidiaries on a consolidated basis.

9.7. INSURANCE. The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent and in accordance with the terms of the Security Agreements.

9.8. TAXES. The Borrower will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its real properties, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower and each Subsidiary of the Borrower will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor.

9.9. INSPECTION OF PROPERTIES AND BOOKS, ETC.

9.9.1. GENERAL. The Borrower shall permit the Banks, through the Agent or any of the Banks' other designated representatives, to visit and inspect any of the properties of the Borrower or any of its Subsidiaries, to examine the books of account of the Borrower and its Subsidiaries (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries with, and to be advised as to the same by, its and their officers, all at such reasonable times and intervals as the Agent or any Bank may reasonably request.

9.9.2. COLLATERAL REPORTS. No more frequently than once during each calendar year, or more frequently as determined by the Agent if an Event of Default shall have occurred and be continuing, upon the request of the Agent, the Borrower will obtain and deliver to the Agent, or, if the Agent so elects, will cooperate with the Agent in the Agent's obtaining, (a) a report of an independent collateral auditor satisfactory to the Agent (which may be affiliated with one of the Banks) with respect to the Accounts Receivable component included in the Borrowing Base, which report shall indicate whether or not the information set forth in the Borrowing Base Report most recently delivered is accurate and complete in all material respects based upon a review by such auditors of the Accounts Receivable (including verification with respect to the amount, aging, identity and credit of the respective account debtors and the billing practices of the Borrower or its applicable Subsidiary) and (b) appraisal reports in form and substance and from appraisers satisfactory to the Agent, stating (i) the then current fair market, orderly liquidation

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and forced liquidation values of all or any portion of the equipment or real estate owned by the Borrower or any of its Subsidiaries and (ii) the then current business value of each of the Borrower and its Subsidiaries. All such appraisals and collateral value reports shall be conducted and made at the expense of the Borrower. In addition, no more frequently than once each calendar year, or more frequently as determined by the Agent if an Event of Default shall have occurred and be continuing, the Agent shall be entitled to conduct a commercial finance examination of the Borrower at its Subsidiaries, such commercial finance examinations to be at the Borrower's expense.

9.9.3. COMMUNICATIONS WITH ACCOUNTANTS. The Borrower authorizes the Agent and, if accompanied by the Agent, the Banks to communicate directly with the Borrower's independent certified public accountants and authorizes such accountants to disclose to the Agent and the Banks any and all financial statements and other supporting financial documents and schedules including copies of any management letter with respect to the business, financial condition and other affairs of the Borrower or any of its Subsidiaries. At the request of the Agent, the Borrower shall deliver a letter addressed to such accountants instructing them to comply with the provisions of this ss.9.9.3

9.10. COMPLIANCE WITH LAWS, CONTRACTS, LICENSES, AND PERMITS. The Borrower will, and will cause each of its Subsidiaries to, comply with (a) the applicable laws and regulations wherever its business is conducted, including all Environmental Laws, unless the failure to so comply would not have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary, (b) the provisions of its charter documents and by-laws, (c) all agreements and instruments by which it or any of its properties may be bound, unless the failure to so comply would not have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary and (d) all applicable decrees, orders, and judgments, unless the failure to so comply would not have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary. If any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrower or any of its Subsidiaries may fulfill any of its obligations hereunder or any of the other Loan Documents to which the Borrower or such Subsidiary is a party, the Borrower will, or (as the case may be) will cause such Subsidiary to, immediately take or cause to be taken all reasonable steps within the power of the Borrower or such Subsidiary to obtain such authorization, consent, approval, permit or license and furnish the Agent and the Banks with evidence thereof.

9.11. EMPLOYEE BENEFIT PLANS. The Borrower will (a) promptly upon filing the same with the Department of Labor or Internal Revenue Service furnish to the Agent a copy of the most recent actuarial statement required to be submitted under ss.103(d) of ERISA and Annual Report, Form 5500, with all required attachments, in respect of each Guaranteed Pension Plan and (b) promptly upon receipt or dispatch, furnish to the Agent any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under ss.ss.302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under ss.ss.4041A, 4202, 4219, 4242, or 4245 of ERISA.

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9.12. USE OF PROCEEDS. The Borrower will use the proceeds of the Loans solely (a) to refinance existing Indebtedness of the Borrower and (b) for working capital and general corporate purposes (including, without limitation, the repurchase by the Borrower of its capital stock). The Borrower will obtain Letters of Credit solely for working capital and general corporate purposes.

9.13. GUARANTORS. The Borrower will cause each Domestic Subsidiary created, acquired or existing on or after the Closing Date, or any other Subsidiary which is otherwise required to become a guarantor under any Subordinated Debt Document, to become a Guarantor immediately and shall cause such Subsidiary to execute and deliver to the Agent for the benefit of the Agent and the Banks (a) a Guaranty (or an Instrument of Adherence to the Guaranty executed on the Closing Date), and (b) further Security Documents or other instruments and documents as the Agent may reasonably require in order to grant to the Agent a first priority perfected security interest in such Subsidiary's assets, together with legal opinions in form and substance reasonably satisfactory to the Agent to be delivered to the Agent and the Banks opining as to the authorization, validity and enforceability of such Guaranty or Instrument of Adherence and Security Documents and (as to the applicable Security Documents) the perfection of such security interests.

9.14. ADDITIONAL SUBSIDIARIES. If, after the Closing Date, the Borrower or any of its Subsidiaries creates or acquires, either directly or indirectly, any Subsidiary, it will immediately notify the Agent and the Banks if such creation or acquisition, as the case may be, and provide the Agent and the Banks with an updated Schedule 8.19(a) hereof and take all other actions required by ss.9.13 and ss.10.5.1 hereof.

9.15. SUBORDINATED GUARANTEES. From and after the time the Borrower has incurred or assumed any Subordinated Debt, the Borrower will promptly advise the Agent of any guarantee entered into in connection with any provision of the Subordinated Indenture or similar agreement requiring any Subsidiary guarantees, and identifying the guarantor thereunder.

9.16. STATUS OF LOAN AS SENIOR DEBT. The Borrower shall, on the date the Subordinated Indenture becomes effective and the Subordinated Notes are issued, and at such other times as may reasonably be requested by the Agent, deliver to the Agent certificates and, if requested, legal opinions, evidencing that the Indebtedness of the Borrower and its Subsidiaries to the Banks and the Agent in respect of the Loans and Reimbursement Obligations constitute "Superior Indebtedness", "Senior Indebtedness" or "Senior Debt" (or the analogous terms used therein) under the terms of the Subordinated Debt Documents or of any other instrument evidencing or pursuant to which there is issued indebtedness which purports to be Subordinated Debt of the Borrower or any Subsidiary and that, (a) this Credit Agreement constitutes the "Senior Bank Facility" (or the analogous term used therein) under the terms of the Subordinated Indenture, and (b) the Indebtedness of the Borrower and its Subsidiaries to the Banks and the Agents in respect of the Loans and the Reimbursement Obligations constitutes "Designated Senior Debt" (or the analogous term used therein).

9.17. FOREIGN SUBSIDIARY NOTES. At any time in which the Borrower is including in its Borrowing Base any items set forth in subparagraph (c) of such definition, until the

Foreign Subsidiary Loan has been indefeasibly repaid in full in cash, the Borrower shall at all times maintain a first priority perfected security interest on all WD Germany's Accounts Receivable pursuant to the Foreign Subsidiary Security Documents as security for each such Foreign Subsidiary Loan.

9.18. ACCOUNTS. The Borrower will at all times continue to require any financial institution which maintains the Borrower's primary depository lockbox accounts to transfer each Business Day, the collected available balance of funds standing to the credit of such account by wire transfer (or other means acceptable to the Agent) to a designated account with the Agent.

9.19. FURTHER ASSURANCES. The Borrower will, and will cause each of its Subsidiaries to, cooperate with the Banks and the Agent and execute such further instruments and documents as the Banks or the Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

#### 10. CERTAIN NEGATIVE COVENANTS OF THE BORROWER.

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

10.1. RESTRICTIONS ON INDEBTEDNESS. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(a) Indebtedness to the Banks and the Agent arising under any of the Loan Documents;

(b) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(c) obligations of the Borrower under a Synthetic Lease arrangement not exceeding \$100,000,000 in the aggregate pursuant to which the Borrower will lease that certain Real Estate located at the north corner of Irvine Center Drive and Sand Canyon Drive in Irvine, California (the "Property") and the improvements to be constructed thereon from the lessor (the "Permitted Synthetic Lease") provided that (i) no Default or Event of Default shall have occurred and be continuing at the time of incurring such Indebtedness or would exist as a result of entering into such Permitted Synthetic Lease; and (ii) all documents, instruments and agreements to be entered into in connection therewith shall be in form and substance satisfactory to the Agent (including, without limitation, all documents pertaining to any security interests granted in connection therewith);

(d) obligations under Capitalized Leases and Synthetic Leases (other than the Permitted Synthetic Lease) not exceeding \$20,000,000 in aggregate amount in any fiscal year;

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(e) Indebtedness incurred in connection with the acquisition after the date hereof of any real or personal property by the Borrower or such Subsidiary, provided that the aggregate principal amount of such Indebtedness of the Borrower and its Subsidiaries shall not exceed the aggregate amount of \$5,000,000 at any one time;

(f) Indebtedness existing on the date hereof and listed and described on Schedule 10.1 hereto;

(g) Indebtedness of a Guarantor to the Borrower;

(h) Indebtedness of a Foreign Subsidiary of the Borrower existing on the Closing Date to the Borrower, provided that (a) the aggregate principal amount of such Indebtedness of all the Foreign Subsidiaries to the Borrower does not exceed \$15,000,000 at any time and (b) such Indebtedness is on a demand basis and is at all times evidenced by a proper demand promissory note pledged to the Agent for the benefit of the Banks, as provided in ss.10.3 hereof;

(i) the unsecured Subordinated Debt evidenced by the Subordinated Notes; provided, (i) the aggregate principal amount of such Indebtedness shall not exceed the aggregate amount of \$500,000,000; (ii) no Default or Event of Default has occurred and is continuing at the time of incurrence of such Subordinated Debt or would exist as a result of the incurrence of such Indebtedness; (iii) the Borrower has demonstrated to the satisfaction of the Agent pro forma compliance with the covenants contained in ss.11 hereof both before and after giving effect to such incurrence; and (iv) the terms of such Subordinated Debt are satisfactory in all respects (including, without limitation, no requirement to make any cash principal payments during the term of this Credit Agreement) to the Agent and the Majority Banks;

(j) Indebtedness of the Borrower or any of its Subsidiaries pursuant to any "derivative contract" as such term is defined in paragraph (i) of the definition of Indebtedness, so long as such derivative contracts are entered into in the ordinary course of business consistent with past practices and are not for speculative purposes; and

(k) other unsecured Indebtedness of the Borrower or any of its Subsidiaries (other than Indebtedness of a Foreign Subsidiary to the Borrower or any Domestic Subsidiary) not otherwise permitted hereunder, provided, that the aggregate amount of all such Indebtedness does not exceed \$25,000,000 in the aggregate at any time;

provided, however, notwithstanding the foregoing provisions of this ss.10.1, all Indebtedness hereunder must qualify as "Permitted Debt", "Debt" or "Permitted Indebtedness" (or such analogous term used therein) (as such terms are defined in the Subordinated Indenture) permitted to be incurred pursuant to the Subordinated Indenture.

10.2. RESTRICTIONS ON LIENS. The Borrower will not, and will not permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, charge, restriction or other security interest of any kind upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (e) sell, assign, pledge or otherwise transfer any accounts, contract rights, general intangibles, chattel paper or instruments, with or without recourse; provided that the Borrower and any Subsidiary of the Borrower may create or incur or suffer to be created or incurred or to exist:

(i) liens in favor of the Borrower on all or part of the assets of Subsidiaries of the Borrower securing Indebtedness owing by Subsidiaries of the Borrower to the Borrower;

(ii) liens to secure taxes, assessments and other government charges in respect of obligations not overdue or liens on properties to secure claims for labor, material or supplies in respect of obligations not overdue;

(iii) deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations;

(iv) liens on properties in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(v) liens of carriers, warehousemen, mechanics and materialmen, and other like liens on properties, in existence less than 120 days from the date of creation thereof in respect of obligations not overdue;

(vi) encumbrances on Real Estate consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and irregularities in the title thereto, landlord's or lessor's liens under leases to which the Borrower or a Subsidiary of the Borrower is a party, and other minor liens or encumbrances none of which in the opinion of the Borrower interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower and its Subsidiaries, which defects do not individually or in the aggregate

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have a materially adverse effect on the business of the Borrower individually or of the Borrower and its Subsidiaries on a consolidated basis;

(vii) liens existing on the date hereof and listed on Schedule 10.2 hereto;

(viii) purchase money security interests in or purchase money mortgages on real or personal property acquired after the date hereof to secure purchase money Indebtedness of the type and amount permitted by ss.10.1(e), incurred in connection with the acquisition of such property, which security interests or mortgages cover only the real or personal property so acquired;

(ix) liens in favor of the lessor under the Permitted Synthetic Lease or any Capitalized Lease to secure the Indebtedness permitted by ss.10.1(c) and ss.10.1(d), provided, such liens cover only such real or personal property subject to such Synthetic Leases and Capitalized Leases permitted by ss.10.1(c) and (d), and are in such amounts as are approved in writing by the Agent and the Majority Banks;

(x) liens in favor of the lessor under any permitted sale and leaseback transaction, provided such liens cover only such real property subject to such sale and leaseback transaction and are in such amounts as are approved in writing by the Agent and the Majority Banks;

(xi) liens in favor of the Agent for the benefit of the Banks and the Agent under the Loan Documents.

10.3. RESTRICTIONS ON INVESTMENTS. The Borrower will not, and will not permit any of its Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

(a) marketable direct or guaranteed obligations of the United States of America or any other country which is a member of the OECD that mature within one (1) year from the date of purchase by the Borrower;

(b) demand deposits, certificates of deposit, bankers acceptances and time deposits of United States banks or banks of any other country which is a member of the OECD having total assets in excess of \$1,000,000,000;

(c) securities commonly known as "commercial paper" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P 1" if rated by Moody's Investors Services, Inc., and not less than "A 1" if rated by Standard and Poor's Rating Group;

(d) Investments existing on the date hereof and listed on Schedule 10.3 hereto (including those Investments in the Strategic Partners set forth on Schedule 10.3);

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(e) Investments with respect to Indebtedness permitted by ss.10.1(g) so long as such entities remain Guarantors, and Investments with respect to Indebtedness permitted by ss.10.1(h) so long as such entities remain Subsidiaries of the Borrower;

(f) Investments consisting of the Guaranty or Investments by the Borrower in Guarantors so long as such entities remain Guarantors hereunder;

(g) Investments of the Borrower made after the Closing Date in Strategic Partners, provided that no Default or Event of Default has occurred and is continuing on the date of such Investment or would exist as a result of such Investment and the aggregate amount of all such Investments made after the Closing Date shall not exceed \$15,000,000 at any time; and

(h) Investments made in the ordinary course of business consistent with past practices consisting (and not for speculative purposes) of contracts entered into for foreign exchange hedging purposes;

provided, however, that, with the exception of demand deposits referred to in ss.10.3(b), such Investments will be considered Investments permitted by this ss.10.3 only if all actions have been taken as required by the Security Documents and the Agent has a first priority perfected security interest in all of such Investments free of all encumbrances other than Permitted Liens.

10.4. DISTRIBUTIONS. The Borrower will not make any Restricted Payments; provided, however, so long as no Default or Event of Default has occurred and is continuing or would exist as a result thereof, at such time as the Borrower has demonstrated to the satisfaction of the Agent that the Borrower's Consolidated Net Operating Income for each of the two fiscal quarters most recently ended is not less than \$1.00, the Borrower shall be permitted to (a) make repurchases of its capital stock from the holders thereof and (b) make any Distributions required pursuant to its Stock Option Plan.

#### 10.5. MERGER, CONSOLIDATION AND DISPOSITION OF ASSETS.

10.5.1. MERGERS AND ACQUISITIONS. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to any merger or consolidation, or agree to or effect any asset acquisition or stock acquisition (other than the acquisition of assets in the ordinary course of business consistent with past practices) except, so long as no Default or Event of Default has occurred and is continuing, or would exist after giving effect thereto, (a) the merger or consolidation of one or more of the Subsidiaries of the Borrower with and into the Borrower so long as the Borrower is the survivor and has taken or caused to be taken all action necessary to grant to the Agent a first priority perfected security interest in all of the Borrower's assets after such merger or consolidation; (b) the merger or consolidation of two or more Subsidiaries of the Borrower so long as, in the event the parties to such merger or consolidation are a Guarantor and a Foreign Subsidiary, the Guarantor is the survivor of such merger and has taken or caused to be taken all action necessary to grant to the Agent a first priority perfected security interest in all of the Borrower's assets after such merger or consolidation; and (c)

other asset or stock acquisitions of Persons in the same or a similar line of business as the Borrower (the "Permitted Acquisitions") where (i) the Borrower has provided the Agent with thirty (30) days prior written notice of such Permitted Acquisition, which notice shall include a reasonably detailed description of such Permitted Acquisition; (ii) the business to be acquired would not subject the Agent or the Banks to regulatory or third party approvals in connection with the exercise of its rights and remedies under this Credit Agreement or the other Loan Documents; (iii) the business and assets so acquired in such Permitted Acquisition shall be acquired by the Borrower free and clear of all liens (other than liens permitted by ss.10.2) and all Indebtedness (other than Indebtedness permitted by ss.10.1); (iv) no contingent obligations or liabilities will be incurred or assumed in connection with such Permitted Acquisition which could be expected to have a material adverse effect on the business, assets or financial condition of the Borrower and its Subsidiaries; (v) the Borrower has demonstrated to the satisfaction of the Agent, based on a pro forma Compliance Certificate, compliance with ss.11 on a pro forma basis immediately prior to and after giving effect to such Permitted Acquisition; (vi) the aggregate purchase price constituting cash or Indebtedness (A) from the Closing Date until such time as the Borrower has demonstrated to the satisfaction of the Agent that the Borrower's Consolidated Net Operating Income for each of the two fiscal quarters most recently ended is not less than \$1.00, for any one Permitted Acquisition or a series of related Permitted Acquisitions does not exceed \$10,000,000 and the aggregate purchase price for all Permitted Acquisitions does not exceed \$50,000,000 during the term of this Credit Agreement and (B) thereafter for any one Permitted Acquisition or a series of related Permitted Acquisitions does not exceed \$30,000,000 and the aggregate purchase price for all Permitted Acquisitions does not exceed \$150,000,000 during the term of this Credit Agreement; (vii) the required majority of the Board of Directors of the target Person incumbent at the time such Permitted Acquisition is proposed has acquiesced, or the transaction is otherwise deemed in the reasonable judgment of the Banks to be a "friendly" acquisition and (viii) the Borrower has taken, or caused to be taken, all necessary action to grant to the Agent a first priority perfected lien in all assets and stock acquired in connection with such Permitted Acquisition, provided, however, the Borrower or any Guarantor, as the case may be, shall only be required to pledge 66% of the capital stock of any Foreign Subsidiary or any other Person not incorporated or otherwise organized in the United States of America (a "Foreign Entity"), and such Foreign Entity shall not be required to grant a lien on its assets to secure the Obligations of the Borrower or any Guarantor.

In the event any new Domestic Subsidiary is formed or acquired as a result of or in connection with any Permitted Acquisition, such Domestic Subsidiary shall, immediately upon its creation or acquisition, execute and deliver to the Agent for the benefit of the Agent and the Banks, an Instrument of Adherence in substantially the form of Exhibit F hereto (an "Instrument of Adherence") and the Loan Documents shall be amended and/or supplemented as necessary to make the terms and conditions of the Loan Documents applicable to such Domestic Subsidiary. Such Domestic Subsidiary shall become a Guarantor hereunder and shall become party to the Guaranty and the Security Documents and shall execute and deliver to the Agent any and all other agreements, documents, instruments and financing

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statements necessary to grant to the Agent a first priority perfected line in such Domestic Subsidiary's assets. The Borrower and its Subsidiaries shall, immediately upon the creation or acquisition of such Domestic Subsidiary, pledge all of such Domestic Subsidiary's capital stock to the Agent for the benefit of the Agent and the Banks. In addition, the Borrower and its Subsidiaries shall, immediately upon the creation or acquisition of a Foreign Subsidiary, pledge 66% of such Foreign Subsidiary's capital stock to the Agent for the benefit of the Agent and the Banks.

10.5.2. DISPOSITION OF ASSETS. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than the disposition of assets in the ordinary course of business, consistent with past practices; provided, however, so long as no Default or Event of Default shall have occurred and is continuing or would exist after giving effect thereto, the Borrower shall be permitted to enter into a sale and leaseback arrangement in respect of the real property located at Irvine, California and/or Rochester, Minnesota in an arms-length transaction for fair and reasonable value.

Notwithstanding anything to the contrary contained in this ss.10.5.2, (a) the Borrower and its Subsidiaries shall not be permitted to dispose of any assets or take (or omit to take) any action in connection with any asset sale or other disposition or engage in any other transaction which action (or omission) would require any repayment, repurchase or redemption (or any mandatory offer to repay, repurchase or redeem) by the Borrower or any of its Subsidiaries of the Subordinated Notes or any other Subordinated Debt pursuant to the Subordinated Indenture or any other Subordinated Debt Document prior to the repayment in full in cash of all the Obligations and the termination in full of the Total Commitment, or would violate the provisions of the Subordinated Indenture or similar agreement; (b) the Borrower shall not directly or indirectly sell or otherwise dispose of all or substantially all of its assets; and (c) except as expressly permitted in this ss.10.5.2, neither the Borrower nor its Subsidiaries shall sell or otherwise dispose of all or substantially all of the capital stock of any Person which is a Guarantor or is an entity the capital stock of which is pledged under the Loan Documents by the Borrower or any Guarantor, except for transfers to the Borrower or another Guarantor (with each such transfer to the Borrower or another Guarantor to be subject to the Agent's security interest therein for the benefit of the Agent and the Banks).

10.6. SALE AND LEASEBACK. Except as permitted by ss.10.5.2, the Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrower or any Subsidiary of the Borrower shall sell or transfer any property owned by it in order then or thereafter to lease such property or lease other property that the Borrower or any Subsidiary of the Borrower intends to use for substantially the same purpose as the property being sold or transferred, other than the sale or transfer and subsequent lease by the Borrower or any Subsidiary of new equipment purchased by the Borrower or such Subsidiary within ninety (90) days of such sale or transfer.

10.7. COMPLIANCE WITH ENVIRONMENTAL LAWS. The Borrower will not, and will not permit any of its Subsidiaries to, (a) use any of the Real Estate or any portion thereof for the

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handling, processing, storage or disposal of Hazardous Substances in violation of any Environmental Law the noncompliance with which would have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances in violation of any Environmental Law the noncompliance with which would have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary, (c) generate any Hazardous Substances on any of the Real Estate in violation of any Environmental Law the noncompliance with which would have a material adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a release (i.e. releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping) or threatened release of Hazardous Substances on, upon or into the Real Estate or (e) otherwise conduct any activity at any Real Estate or use any Real Estate in any manner that would violate any Environmental Law or bring such Real Estate in violation of any Environmental Law in each case if such violation would have a materially adverse effect on the business, assets or financial condition of the Borrower or such Subsidiary.

10.8. SUBORDINATED DEBT. The Borrower will not, and will not permit any of its Subsidiaries to, amend, supplement or otherwise modify the terms of any of the Subordinated Debt or prepay, redeem or repurchase any of the Subordinated Debt or send any notice of redemption, repayment, repurchase or defeasance with respect to any of the Subordinated Debt.

10.9. SENIOR DEBT. The Borrower will not, and will not permit any of its Subsidiaries to, in any manner designate or permit to exist and other Indebtedness of the Borrower or any of its Subsidiaries as "Designated Senior Debt" (or such analogous term used therein) for purposes of (and as defined in) the Subordinated Indenture, other than the Indebtedness arising under this Credit Agreement and the other Loan Documents.

10.10. EMPLOYEE BENEFIT PLANS. Neither the Borrower nor any ERISA Affiliate will

(a) engage in any "prohibited transaction" within the meaning of ss.406 of ERISA or ss.4975 of the Code which could result in a material liability for the Borrower or any of its Subsidiaries; or

(b) permit any Guaranteed Pension Plan to incur an "accumulated funding deficiency", as such term is defined in ss.302 of ERISA, whether or not such deficiency is or may be waived; or

(c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to ss.302(f) or ss.4068 of ERISA; or

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(d) amend any Guaranteed Pension Plan in circumstances requiring the posting of security pursuant to ss.307 of ERISA or ss.401(a)(29) of the Code; or

(d) permit or take any action which would result in the aggregate benefit liabilities (with the meaning of ss.4001 of ERISA) of all Guaranteed Pension Plans exceeding the value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities.

10.11. CHANGES IN TERMS OF CAPITAL STOCK. The Borrower will not, nor will it permit any of its Subsidiaries to, effect or permit any change in or amendment to any document or instrument pertaining to the terms of such Person's capital stock unless such a change or amendment is of an immaterial or ministerial nature that would not have any adverse effect on any of the Agent' or the Banks' rights or interests under the Loan Documents or the Borrower's or any of its Subsidiaries' obligations under the Loan Documents to which such Person is a party.

10.12. FISCAL YEAR. The Borrower will not change the date of the end of its fiscal year from that set forth in ss.8.4.1 hereof.

10.13. NEGATIVE PLEDGES. The Borrower will not, nor will it permit any Subsidiary to, enter into any agreement (excluding this Credit Agreement, the Subordinated Debt Documents and documents executed in connection with the Permitted Synthetic Lease) prohibiting the creation or assumption of any lien upon its properties, revenues or assets or those of any of its Subsidiaries, whether now owned or hereafter acquired, other than those agreements with Persons prohibiting any such lien on assets in which such Person has a prior security interest which is permitted by ss.10.2.

10.14. TRANSACTIONS WITH AFFILIATES. The Borrower will not, nor will it permit any Subsidiary to, enter into or cause, suffer or permit to exist (a) any arrangement or contract with any of its other Affiliates of a nature customarily entered into by Persons which are Affiliates of each other (including management or similar contracts or arrangements relating to the allocation of revenues, taxes and expenses or otherwise) requiring any payment to be made by the Borrower or any of its Subsidiaries to any Affiliate unless such arrangement is fair and equitable to the Borrower or such Subsidiary; or (b) any other transaction, arrangement, contract with any of its other Affiliates which would not be entered into by a prudent Person in the position of the Borrower or such Subsidiary with, or which is on terms which are less favorable than are obtainable from, any Person which is not one of its Affiliates.

10.15. UPSTREAM LIMITATIONS. The Borrower will not, nor will it permit any Subsidiary to, enter into any agreement, contract, or arrangement (other than the Credit Agreement and the other Loan Documents) restricting the ability of any Subsidiary to pay or make dividends or distributions in cash or kind, to make loans, advances or other payments of whatsoever nature or to make transfers or distributions of all or any part of its assets to the Borrower.

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10.16. INCONSISTENT AGREEMENTS. The Borrower will not, nor will it permit any Subsidiary to, enter into any agreement containing any provision which would be violated or breached by the performance by the Borrower or such Subsidiary of its obligations hereunder or under any of the other Loan Documents.

#### 11. FINANCIAL COVENANTS OF THE BORROWER.

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

11.1. PROFITABLE OPERATIONS. The Borrower will not permit Consolidated Net Operating Income for (a) the end of third fiscal quarter of 1998 to be less than (\$50,000,000); (b) the end of the fourth fiscal quarter of 1998 to be less than (\$30,000,000); (c) the end of the first fiscal quarter of 1999 to be less than (\$20,000,000); and (d) each fiscal quarter ending thereafter to be less than \$1.00.

11.2. FIXED RATE COVERAGE RATIO. The Borrower will not, as of the end of any fiscal quarter ending during any period described in the table set forth below, permit the ratio of (a) the sum of (i) EBITDA for the Reference Period ending on such date plus (ii) Rental Obligations for the Reference Period ending on such date (without giving effect to the December 1997 Charge) to (b) the sum of (i) Consolidated Total Cash Interest Expense for the Reference Period ending on such date plus (ii) Rental Obligations for the Reference Period ending on such date, to be less than the ratio set forth opposite such period in such table:

PERIOD -----	RATIO -----
Closing Date - Fourth Fiscal Quarter 1998	3.00:1.00
First Fiscal Quarter 1999	1.40:1.00
Second Fiscal Quarter 1999	1.50:1.00
Third Fiscal Quarter 1999 - Fourth Fiscal Quarter 1999	2.50:1.00
each fiscal quarter thereafter	3.00:1.00

11.3. LEVERAGE. The Borrower will not at any time during any period set forth in the table below permit the ratio of (a) the sum of (i) Consolidated Total Liabilities plus to the extent not otherwise included in the calculation of Consolidated Total Liabilities and without duplication, (ii) all other Indebtedness of the Borrower and its Subsidiaries which does not appear on the Borrower's consolidated balance sheet as a liability (other than Indebtedness which constitutes (A) a "derivative contract" (as defined in paragraph (i) of the term Indebtedness); (B) obligations under securities repurchase agreements; and (C) any "equity related purchase obligations" (as such term is defined in paragraph (h) of the term Indebtedness) pertaining to the Stock Option Plan), less (iii) the aggregate amount of the outstanding Subordinated Notes to (b) the sum of (i) the aggregate amount of consolidated shareholders' equity (net of any commitments of capital to the extent not received) less (ii)

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Consolidated Intangible Assets to exceed the ratio set forth opposite such period in such table:

PERIOD -----	RATIO -----
Closing Date - last day of the Second Fiscal Quarter of 1999	2.75:1.00
First day of the Third Fiscal Quarter of 1999 - last day of the Third Fiscal Quarter of 2000	2.50:1.00
any time thereafter	2.25:1.00

11.4. CONSOLIDATED TANGIBLE NET WORTH. The Borrower will not permit Consolidated Tangible Net Worth at any time (a) from the Closing Date until such time as the Borrower has demonstrated to the satisfaction of the Agent that the Borrower's Consolidated Net Operating Income for each of the two fiscal quarters most recently ended is not less than \$1.00 to be less than the sum of (i) \$435,000,000 plus, on a cumulative basis, (ii) 75% of positive Consolidated Net Income for each fiscal quarter beginning with the third fiscal quarter of 1998, plus (iii) 100% of the proceeds of any sale by the Borrower after December 27, 1997 of (A) equity securities issued by the Borrower or (B) warrants or subscription rights for equity securities issued by the Borrower; (b) thereafter to be less than the sum of (i) \$435,000,000 plus, on a cumulative basis, (ii) 50% of positive Consolidated Net Income for each fiscal quarter commencing with the third fiscal quarter of 1998, plus (iii) 100% of the proceeds of any sale by the Borrower after December 27, 1997 of (A) equity securities issued by the Borrower or (B) warrants or subscription rights for equity securities issued by the Borrower.

11.5. CAPITAL EXPENDITURES. The Borrower will not make, or permit any Subsidiary of the Borrower to make, Capital Expenditures in any fiscal year that exceed, in the aggregate, \$275,000,000 for the 1998 and 1999 fiscal years and \$300,000,000 in each fiscal year thereafter.

#### 12. CLOSING CONDITIONS.

The obligations of the Banks to make the initial Revolving Credit Loans and the Term Loan and of the Agent to issue any initial Letters of Credit shall be subject to the satisfaction of the following conditions precedent.

12.1. LOAN DOCUMENTS. Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to each of the Banks. Each Bank shall have received a fully executed copy of each such document.

12.2. CERTIFIED COPIES OF CHARTER DOCUMENTS. Each of the Banks shall have received from the Borrower and each of its Subsidiaries a copy, certified by a duly authorized officer of such Person to be true and complete on the Closing Date, of each of (a) its charter or other incorporation documents as in effect on such date of certification, and (b) its by-laws as in effect on such date.

12.3. CORPORATE, ACTION. All corporate action necessary for the valid execution, delivery and performance by the Borrower and each of its Subsidiaries of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Banks shall have been provided to each of the Banks.

12.4. INCUMBENCY CERTIFICATE. Each of the Banks shall have received from the Borrower and each of its Subsidiaries an incumbency certificate, dated as of the Closing Date, signed by a duly authorized officer of the Borrower or such Subsidiary, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of each of the Borrower or such Subsidiary, each of the Loan Documents to which the Borrower or such Subsidiary is or is to become a party; (b) in the case of the Borrower, to make Loan Requests and Conversion Requests and to apply for Letters of Credit; and (c) to give notices and to take other action on its behalf under the Loan Documents.

12.5. VALIDITY OF LIENS. The Security Documents shall be effective to create in favor of the Agent a legal, valid and enforceable first (except for Permitted Liens entitled to priority under applicable law) security interest in and lien upon the Collateral. All filings, recordings, deliveries of instruments and other actions necessary or desirable in the opinion of the Agent to protect and preserve such security interests shall have been duly effected. The Agent shall have received evidence thereof in form and substance satisfactory to the Agent.

12.6. PERFECTION CERTIFICATES AND UCC SEARCH RESULTS. The Agent shall have received from each of the Borrower and the Guarantors a completed and fully executed Perfection Certificate and the results of UCC searches with respect to the Collateral, indicating no liens other than Permitted Liens and otherwise in form and substance satisfactory to the Agent.

12.7. CERTIFICATES OF INSURANCE. The Agent shall have received (a) a certificate of insurance from an independent insurance broker dated as of the Closing Date, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance obtained in accordance with the provisions of the Security Agreements and (b) certified copies of all policies evidencing such insurance (or certificates therefore signed by the insurer or an agent authorized to bind the insurer).

12.8. BORROWING BASE REPORT. The Agent shall have received from the Borrower the initial Borrowing Base Report dated as of December 27, 1997.

12.9. ACCOUNTS RECEIVABLE AGING REPORT. The Agent shall have received from the Borrower the most recent Accounts Receivable aging report of the Borrower and its Subsidiaries dated as of December 27, 1997 and the Borrower shall have notified the Agent in writing on the Closing Date of any material deviation from the Accounts Receivable values reflected in such Accounts Receivable aging report and shall have provided the Agent with such supplementary documentation as the Agent may reasonably request.

12.10. SOLVENCY CERTIFICATE. Each of the Banks shall have received an officer's certificate of the Borrower dated as of the Closing Date as to the solvency of the Borrower and its Subsidiaries following the consummation of the transactions contemplated herein and in form and substance satisfactory to the Banks.

12.11. OPINION OF COUNSEL. Each of the Banks and the Agent shall have received a favorable legal opinion addressed to the Banks and the Agent, dated as of the Closing Date, in form and substance satisfactory to the Banks and the Agent, from:

(a) Michael A. Cornelius, Esq., counsel to the Borrower and the Guarantors; and

(b) local counsel to the Borrower in the United Kingdom, Germany, Malaysia, The Netherlands and Cayman Islands.

12.12. PAYMENT OF FEES. The Borrower shall have paid to the Banks or the Agent, as appropriate, the closing fee and the administrative fee as set forth in the Fee Letter.

12.13. PAYOFF LETTER. The Agent shall have received a payoff letter from BankBoston, N.A. and NationsBank of Texas, N.A. (the "Prior Agents"), indicating the amount of the loan obligations of the Borrower to certain lenders party to a certain Amended and Restated Revolving Credit Agreement dated as May 5, 1997 among the Borrower, the Prior Agents and the lenders party thereto (the "Prior Agreement") to be discharged on the Closing Date.

12.14. DISBURSEMENT INSTRUCTIONS. The Agent shall have received disbursement instructions from the Borrower, indicating that a portion of the proceeds of the Term Loan and the initial Revolving Credit Loan, in an aggregate amount equal to the aggregate loan obligations of the Borrower to the lenders under the Prior Agreement are paid to such lenders.

### 13. CONDITIONS TO ALL BORROWINGS.

The obligations of the Banks to make any Loan, including making the initial Revolving Credit Loan and the Term Loan, and of the Agent to issue, extend or renew any Letter of Credit, in each case whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

13.1. REPRESENTATIONS TRUE; NO EVENT OF DEFAULT. Each of the representations and warranties of any of the Borrower and its Subsidiaries contained in this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan or the issuance, extension or renewal of such Letter of Credit, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

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13.2. NO LEGAL IMPEDIMENT. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Bank would make it illegal for such Bank to make such Loan or to participate in the issuance, extension or renewal of such Letter of Credit or in the reasonable opinion of the Agent would make it illegal for the Agent to issue, extend or renew such Letter of Credit.

13.3. GOVERNMENTAL REGULATION. Each Bank shall have received such statements in substance and form reasonably satisfactory to such Bank as such Bank shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

13.4. BORROWING BASE REPORT. The Agent shall have received the most recent Borrowing Base Report required to be delivered to the Agent in accordance with ss.9.4(e) and, if requested by the Agent, a Borrowing Base Report dated within five (5) days of the Drawdown Date of such Loan or of the date of issuance, extension or renewal of such Letter of Credit.

14. EVENTS OF DEFAULT; ACCELERATION; ETC.

14.1. EVENTS OF DEFAULT AND ACCELERATION. If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans or any Reimbursement Obligation when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower shall fail to pay any interest on the Loans, the Commitment Fee, any Letter of Credit Fee, the Agent's fee, or other sums due hereunder or under any of the other Loan Documents, within three (3) days of the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower shall fail to comply with any of its covenants contained in ss.9, 10 or 11;

(d) the Borrower or any of its Subsidiaries shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this ss.14.1) for thirty (30) days after written notice of such failure has been given to the Borrower by the Agent;

(e) any representation or warranty of the Borrower or any of its Subsidiaries in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

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(f) the Borrower or any of its Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any Capitalized Leases, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof;

(g) the Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of the Borrower or any of its Subsidiaries or of any substantial part of the assets of the Borrower or any of its Subsidiaries or shall commence any case or other proceeding relating to the Borrower or any of its Subsidiaries under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commenced against the Borrower or any of its Subsidiaries and the Borrower or any of its Subsidiaries shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within forty-five (45) days following the filing thereof;

(h) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or any of its Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of the Borrower or any Subsidiary of the Borrower in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(i) there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty days, whether or not consecutive, any final judgment against the Borrower or any of its Subsidiaries that, with other outstanding final judgments, undischarged, against the Borrower or any of its Subsidiaries exceeds in the aggregate \$10,000,000;

(j) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded or the Agent's security interests, mortgages or liens in a substantial portion of the Collateral shall cease to be perfected, or shall cease to have the priority contemplated by the Security Documents, in each case otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Banks, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower or any of its Subsidiaries party thereto or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination

that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof;

(k) the Borrower or any ERISA Affiliate incurs any liability to the PBGC or a Guaranteed Pension Plan pursuant to Title IV of ERISA in an aggregate amount exceeding \$2,000,000 or the Borrower or any ERISA Affiliate is assessed withdrawal liability pursuant to Title IV of ERISA by a Multiemployer Plan requiring aggregate annual payments exceeding \$2,000,000, or any of the following occurs with respect to a Guaranteed Pension Plan: (i) an ERISA Reportable Event, or a failure to make a required installment or other payment (within the meaning of ss.302(f)(1) of ERISA), provided that the Agent determines in its reasonable discretion that such event (A) could be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding \$2,000,000 and (B) could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC, for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan or for the imposition of a lien in favor of such Guaranteed Pension Plan; or (ii) the appointment by a United States District Court of a trustee to administer such Guaranteed Pension Plan; or (iii) the institution by the PBGC of proceedings to terminate such Guaranteed Pension Plan;

(l) the Borrower or any of its Subsidiaries shall be enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting any material part of its business and such order shall continue in effect for more than thirty (30) days;

(m) there shall occur any material damage to, or loss, theft or destruction of, any assets of the Borrower or any of its Subsidiaries, whether or not insured, or any strike, lockout, labor dispute, embargo, condemnation, act of God or public enemy, or other casualty, which in any such case causes, for more than fifteen (15) consecutive days, the cessation or substantial curtailment of revenue producing activities of the Borrower or any of its Subsidiaries if such event or circumstance is not covered by business interruption insurance and would have a material adverse effect on the business or financial condition of the Borrower or such Subsidiary;

(n) there shall occur the loss, suspension or revocation of, or failure to renew, any license or permit now held or hereafter acquired by the Borrower or any of its Subsidiaries if such loss, suspension, revocation or failure to renew would have a material adverse effect on the business or financial condition of the Borrower or such Subsidiary;

(o) the Borrower or any of its Subsidiaries shall be indicted for a state or federal crime, or any civil or criminal action shall otherwise have been brought or threatened against the Borrower or any of its Subsidiaries, a punishment for which in any such case could include the forfeiture of any assets of the Borrower or such Subsidiary included in the Borrowing Base or any assets of the Borrower or such

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Subsidiary not included in the Borrowing Base but having a fair market value in excess of \$5,000,000;

(p) the holders of all or any part of the Subordinated Debt shall accelerate the maturity of all or any part of the Subordinated Debt or the Subordinated Debt shall be (or shall be required at such time to be) prepaid, redeemed or repurchased in whole or in part; or the Borrower shall be or become required under the Subordinated Indenture to prepay, redeem or repurchase (or shall be or become required thereunder to offer to prepay, redeem or repurchase) all or any part of the Subordinated Debt;

(q) a "Change of Control" (or any analogous term used therein) as such term is defined in the Subordinated Indenture or any similar agreement governing any other Subordinated Debt occurs;

(r) the Borrower shall at any time fail legally or beneficially own less than 100% of the capital stock of any of the Guarantors; or

(s) any Person shall at any time be the legal or beneficial owner (within the meaning used in Rule 13d-3 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended) of more than fifty percent (50%) of the outstanding shares of the common stock of the Borrower;

then, and in any such event, so long as the same may be continuing, the Agent may, and upon the request of the Majority Banks shall, by notice in writing to the Borrower declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents and all Reimbursement Obligations to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in ss.14.1(g) or 14.1(h), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Agent or any Bank.

14.2. TERMINATION OF COMMITMENTS. If any one or more of the Events of Default specified in ss.14.1(g) or ss.14.1(h) shall occur, any unused portion of the credit hereunder shall forthwith terminate and each of the Banks shall be relieved of all further obligations to make Loans to the Borrower and the Agent shall be relieved of all further obligations to issue, extend or renew Letters of Credit. If any other Event of Default shall have occurred and be continuing, or if on any Drawdown Date or other date for issuing, extending or renewing any Letter of Credit the conditions precedent to the making of the Loans to be made on such Drawdown Date or (as the case may be) to issuing, extending or renewing such Letter of Credit on such other date are not satisfied, the Agent may and, upon the request of the Majority Banks, shall, by notice to the Borrower, terminate the unused portion of the credit hereunder, and upon such notice being given such unused portion of the credit hereunder shall terminate immediately and each of the Banks shall be relieved of all further obligations to make Loans and the Agent shall be relieved of all further obligations to issue, extend or renew Letters of Credit. No termination of the credit hereunder shall relieve the Borrower or any of its Subsidiaries of any of the Obligations.

14.3. REMEDIES. In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Banks shall have accelerated the maturity of the Loans pursuant to ss.14.1, each Bank, if owed any amount with respect to the Loans or the Reimbursement Obligations, may, with the consent of the Majority Banks but not otherwise, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Bank are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of such Bank. No remedy herein conferred upon any Bank or the Agent or the holder of any Note or purchaser of any Letter of Credit Participation is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

14.4. DISTRIBUTION OF COLLATERAL PROCEEDS. In the event that, following the occurrence or during the continuance of any Default or Event of Default, the Agent, any Bank or the Bank Guarantee Bank, as the case may be, receives any monies in connection with the enforcement of any of the Security Documents, or otherwise with respect to the realization upon any of the Collateral, such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of the Agent for or in respect of all reasonable costs, expenses, disbursements and losses which shall have been incurred or sustained by the Agent in connection with the collection of such monies by the Agent, for the exercise, protection or enforcement by the Agent of all or any of the rights, remedies, powers and privileges of the Agent under this Credit Agreement or any of the other Loan Documents or in respect of the Collateral or in support of any provision of adequate indemnity to the Agent against any taxes or liens which by law shall have, or may have, priority over the rights of the Agent to such monies;

(b) Second, to all other Obligations in such order or preference as the Majority Banks may determine; provided, however, that (i) distributions shall be made (A) *pari passu* among Obligations with respect to the Agent's fee payable pursuant to ss.6.2, the Obligations owing to the Bank Guarantee Bank pursuant to the Credit Instruments and all other Obligations; and (B) with respect to each type of Obligation owing to the Banks and the Bank Guarantee Bank, such as interest, principal, fees and expenses, among the Banks and the Bank Guarantee Bank *pro rata*, and (ii) the Agent may in its discretion make proper allowance to take into account any Obligations not then due and payable;

(c) Third, upon payment and satisfaction in full or other provisions for payment in full satisfactory to the Banks, the Bank Guarantee Bank and the Agent of all of the Obligations, to the payment of any obligations required to be paid pursuant to ss.9-504(1)(c) of the Uniform Commercial Code of the Commonwealth of Massachusetts; and

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(d) Fourth, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

#### 15. SETOFF.

Regardless of the adequacy of any collateral, during the continuance of any Event of Default, any deposits or other sums credited by or due from any of the Banks to the Borrower and any securities or other property of the Borrower in the possession of such Bank may be applied to or set off by such Bank against the payment of Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrower to such Bank. Each of the Banks agrees with each other Bank that (a) if an amount to be set off is to be applied to Indebtedness of the Borrower to such Bank, other than Indebtedness evidenced by the Notes held by such Bank or constituting Reimbursement Obligations owed to such Bank, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by all such Notes held by such Bank or constituting Reimbursement Obligations owed to such Bank, and (b) if such Bank shall receive from the Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by, or constituting Reimbursement Obligations owed to, such Bank by proceedings against the Borrower at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the Note or Notes held by, or Reimbursement Obligations owed to, such Bank any amount in excess of its ratable portion of the payments received by all of the Banks with respect to the Notes held by, and Reimbursement Obligations owed to, all of the Banks, such Bank will make such disposition and arrangements with the other Banks with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Bank receiving in respect of the Notes held by it or Reimbursement obligations owed it, its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Bank, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

#### 16. THE AGENT.

##### 16.1. AUTHORIZATION.

(a) The Agent is authorized to take such action on behalf of each of the Banks and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Agent.

(b) The relationship between the Agent and each of the Banks is that of an independent contractor. The use of the term "Agent" is for convenience only and is used to describe, as a form of convention, the independent contractual relationship between the Agent and each of the Banks. Nothing contained in this Credit

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Agreement nor the other Loan Documents shall be construed to create an agency, trust or other fiduciary relationship between any of the Agent and any of the Banks.

(c) As an independent contractor empowered by the Banks to exercise certain rights and perform certain duties and responsibilities hereunder and under the other Loan Documents, the Agent is nevertheless a "representative" of the Banks, as that term is defined in Article 1 of the Uniform Commercial Code, for purposes of actions for the benefit of the Banks and the Agent with respect to all collateral security and guaranties contemplated by the Loan Documents. Such actions include the designation of the Agent as "secured party", "mortgagee" or the like on all financing statements and other documents and instruments, whether recorded or otherwise, relating to the attachment, perfection, priority or enforcement of any security interests, mortgages or deeds of trust in collateral security intended to secure the payment or performance of any of the Obligations, all for the benefit of the Banks and the Agent.

16.2. EMPLOYEES AND AGENTS. The Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Credit Agreement and the other Loan Documents. The Agent may utilize the services of such Persons as the Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

16.3. NO LIABILITY. Neither the Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

16.4. NO REPRESENTATIONS.

16.4.1. GENERAL. The Agent shall not be responsible for the execution or validity or enforceability of this Credit Agreement, the Notes, the Letters of Credit, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, collateral security for the Notes, or for the value of any such collateral security or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or any of its Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, collateral security for the Notes or to inspect any of the properties, books or records of the Borrower or any of its Subsidiaries. The Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the

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Borrower or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Banks, with respect to the credit worthiness or financial conditions of the Borrower or any of its Subsidiaries. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement.

16.4.2. CLOSING DOCUMENTATION, ETC. For purposes of determining compliance with the conditions set forth in ss.12, each Bank that has executed this Credit Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document and matter either sent, or made available, by the Agent or BancBoston Securities Inc., as arranger to such Bank for consent, approval, acceptance or satisfaction, or required thereunder to be to be consent to or approved by or acceptable or satisfactory to such Bank, unless an officer of the Agent or BancBoston Securities Inc. active upon the Borrower's account shall have received notice from such Bank not less than two (2) days prior to the Closing Date specifying such Bank's objection thereto and such objection shall not have been withdrawn by notice to the Agent or BancBoston Securities Inc. to such effect on or prior to the Closing Date.

#### 16.5. PAYMENTS.

16.5.1. PAYMENTS TO AGENT. A payment by the Borrower to the Agent hereunder or any of the other Loan Documents for the account of any Bank shall constitute a payment to such Bank. The Agent agrees promptly to distribute to each Bank such Bank's pro rata share of payments received by the Agent for the account of the Banks except as otherwise expressly provided herein or in any of the other Loan Documents.

16.5.2. DISTRIBUTION BY AGENT. If in the opinion of the Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

16.5.3. DELINQUENT BANKS. Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Bank that fails (a) to make available to the Agent its pro rata share of any Loan or to purchase any Letter of Credit Participation or (b) to comply with the provisions of ss.15 with respect to making dispositions and arrangements with the other Banks, where such Bank's share of any payment received, whether by setoff or otherwise, is

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in excess of its pro rata share of such payments due and payable to all of the Banks, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "Delinquent Bank") and shall be deemed a Delinquent Bank until such time as such delinquency is satisfied. A Delinquent Bank shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of outstanding Loans, Unpaid Reimbursement Obligations, interest, fees or otherwise, to the remaining nondelinquent Banks for application to, and reduction of, their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations. The Delinquent Bank hereby authorizes the Agent to distribute such payments to the nondelinquent Banks in proportion to their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations. A Delinquent Bank shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans and Unpaid Reimbursement Obligations of the nondelinquent Banks, the Banks' respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

16.6. HOLDERS OF NOTES. The Agent may deem and treat the payee of any Note or the purchaser of any Letter of Credit Participation as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

16.7. INDEMNITY. The Banks ratably agree hereby to indemnify and hold harmless the Agent and its affiliates from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Agent or such affiliate has not been reimbursed by the Borrower as required by ss.17), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Agent's willful misconduct or gross negligence.

16.8. AGENT AS BANK. In its individual capacity, BKB shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes and as the purchaser of any Letter of Credit Participations, as it would have were it not also the Agent.

16.9. RESIGNATION. The Agent may resign at any time by giving sixty (60) days prior written notice thereof to the Banks and the Borrower. Upon any such resignation, the Majority Banks shall have the right to appoint a successor Agent. Unless a Default or Event of Default shall have occurred and be continuing, such successor Agent shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a financial institution having a rating of not less than A or its equivalent by Standard & Poor's Corporation. Upon the acceptance

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of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

16.10. NOTIFICATION OF DEFAULTS AND EVENTS OF DEFAULT. Each Bank hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Agent thereof. The Agent hereby agrees that upon receipt of any notice under this ss.16.10 it shall promptly notify the other Banks of the existence of such Default or Event of Default.

16.11. DUTIES IN THE CASE OF ENFORCEMENT. In case one or more Events of Default have occurred and shall be continuing, and whether or not acceleration of the Obligations shall have occurred, the Agent shall, if (a) so requested by the Majority Banks and (b) the Banks have provided to the Agent such additional indemnities and assurances against expenses and liabilities as the Agent may reasonably request, proceed to enforce the provisions of the Security Documents authorizing the sale or other disposition of all or any part of the Collateral and exercise all or any such other legal and equitable and other rights or remedies as it may have in respect of such Collateral. The Majority Banks may direct the Agent in writing as to the method and the extent of any such sale or other disposition, the Banks hereby agreeing to indemnify and hold the Agent, harmless from all liabilities incurred in respect of all actions taken or omitted in accordance with such directions, provided that the Agent need not comply with any such direction to the extent that the Agent reasonably believes the Agent's compliance with such direction to be unlawful or commercially unreasonable in any applicable jurisdiction.

#### 17. EXPENSES AND INDEMNIFICATION.

17.1. EXPENSES. The Borrower agrees to pay (a) the reasonable costs of producing and reproducing this Credit Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, (b) any taxes (including any interest and penalties in respect thereto) payable by the Agent or any of the Banks (other than taxes based upon the Agent's or any Bank's net income or any United States withholding tax to any non-U.S. Bank arising solely out of such Bank's failure to deliver to the Borrower a duly completed and executed IRS form 1001 or 4224 that shows complete exemption of such Bank for such withholding tax) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Agent and each Bank with respect thereto), (c) the reasonable fees, expenses and disbursements of the Agent's Special Counsel or any local counsel to the Agent incurred in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein, each closing hereunder, any amendments, modifications, approvals, consents or waivers hereto or hereunder, or the cancellation of any Loan Document upon payment in full in cash of all of the Obligations or pursuant to any terms of such Loan Document for providing for such cancellation, (d) the fees, expenses and disbursements of the Agent or any of its affiliates incurred by the Agent or such affiliate in connection with the preparation, syndication, administration or interpretation of the Loan Documents and

other instruments mentioned herein, (e) all reasonable out-of-pocket expenses (including without limitation reasonable attorneys' fees and costs, which attorneys may be employees of any Bank or the Agent, and reasonable consulting, accounting, appraisal, investment banking and similar professional fees and charges) incurred by any Bank or the Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or any of its Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to any Bank's or the Agent's relationship with the Borrower or any of its Subsidiaries and (f) all reasonable fees, expenses and disbursements of any Bank or the Agent incurred in connection with UCC searches, UCC filings or mortgage recordings.

17.2. INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Agent, its affiliates and the Banks from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or the transactions contemplated hereby including, without limitation, (a) any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans or Letters of Credit, (b) any actual or alleged infringement of any patent, copyright, trademark, service mark or similar right of the Borrower or any of the Guarantors comprised in the Collateral, (c) the Borrower or any of its Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or (d) with respect to the Borrower and its Subsidiaries and their respective properties and assets, the violation of any Environmental Law, the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threatened release of any Hazardous Substances or any action, suit, proceeding or investigation brought or threatened with respect to any Hazardous Substances (including, but not limited to, claims with respect to wrongful death, personal injury or damage to property), in each case including, without limitation, the reasonable fees and disbursements of counsel and allocated costs of internal counsel incurred in connection with any such investigation, litigation or other proceeding, except to the extent that any of the foregoing are directly caused by the gross negligence or willful misconduct of the otherwise indemnified party. In litigation, or the preparation therefor, the Banks and the Agent and its affiliates shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of the Borrower under this ss.17.2 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law.

17.3. SURVIVAL. The covenants contained in this ss.17 shall survive payment or satisfaction in full of all other Obligations.

#### 18. SURVIVAL OF COVENANTS, ETC.

All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Banks and the Agent, notwithstanding any investigation

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heretofore or hereafter made by any of them, and shall survive the making by the Banks of any of the Loans and the issuance, extension or renewal of any Letters of Credit, as herein contemplated, and shall continue in full force and effect so long as any Letter of Credit or any amount due under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Bank has any obligation to make any Loans or the Agent has any obligation to issue, extend or renew any Letter of Credit, and for such further time as may be otherwise expressly specified in this Credit Agreement. All statements contained in any certificate or other paper delivered to any Bank or the Agent at any time by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrower or such Subsidiary hereunder.

#### 19. ASSIGNMENT AND PARTICIPATION.

19.1. CONDITIONS TO ASSIGNMENT BY BANKS. Except as provided herein, each Bank may assign to one or more Eligible Assignees all or a portion of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, the Notes held by it and its participating interest in the risk relating to any Letters of Credit); provided that (a) each of the Agent and, unless a Default or Event of Default shall have occurred and be continuing, the Borrower shall have given its prior written consent to such assignment, which consent, in the case of the Agent and the Borrower, will not be unreasonably withheld, (b) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Credit Agreement and shall be made pro rata between the Revolving Credit Loan and Term Loan, (c) each assignment shall be in an amount that is a whole multiple of \$5,000,000 (or, if less, such Bank's entire Commitment), and (d) the parties to such assignment shall execute and deliver to the Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit G hereto (an "Assignment and Acceptance"), together with any Notes subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (i) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, and (ii) the assigning Bank shall, to the extent provided in such assignment and upon payment to the Agent of the registration fee referred to in ss.19.3, be released from its obligations under this Credit Agreement.

#### 19.2. CERTAIN REPRESENTATIONS AND WARRANTIES; LIMITATIONS; COVENANTS.

By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto as follows:

(a) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, the assigning Bank makes no representation or warranty, express or implied, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this

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Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto or the attachment, perfection or priority of any security interest or mortgage,

(b) the assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations, or the performance or observance by the Borrower and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations of any of their obligations under this Credit Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto;

(c) such assignee confirms that it has received a copy of this Credit Agreement, together with copies of the most recent financial statements referred to in ss.8.4 and ss.9.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;

(d) such assignee will, independently and without reliance upon the assigning Bank, the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement;

(e) such assignee represents and warrants that it is an Eligible Assignee;

(f) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto;

(g) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Credit Agreement are required to be performed by it as a Bank;

(h) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; and

(i) such assignee acknowledges that it has made arrangements with the assigning Bank satisfactory to such assignee with respect to its pro rata share of Letter of Credit Fees in respect of outstanding Letters of Credit.

19.3. REGISTER. The Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Banks and the Commitment Percentage of, and principal amount of the Loans owing to and Letter of Credit Participations purchased by, the Banks from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Credit Agreement. The

Register shall be available for inspection by the Borrower and the Banks at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Bank agrees to pay to the Agent a registration fee in the sum of \$3,500.

19.4. NEW NOTES. Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Borrower and the Banks (other than the assigning Bank). Within five (5) Business Days after receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such Eligible Assignee in an amount equal to the amount assumed by such Eligible Assignee pursuant to such Assignment and Acceptance and, if the assigning Bank has retained some portion of its obligations hereunder, a new Note to the order of the assigning Bank in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such in Assignment and Acceptance and shall otherwise be substantially the form of the assigned Notes. Within five (5) days of issuance of any new Notes pursuant to this ss.19.4, the Borrower shall deliver an opinion of counsel, addressed to the Banks and the Agent, relating to the due authorization, execution and delivery of such new Notes and the legality, validity and binding effect thereof, in form and substance satisfactory to the Banks. The surrendered Notes shall be cancelled and returned to the Borrower.

19.5. PARTICIPATIONS. Each Bank may sell participations to one or more banks or other entities in all or a portion of such Bank's rights and obligations under this Credit Agreement and the other Loan Documents; provided that (a) each such participation shall be in an amount of not less than \$2,500,000, (b) any such sale or participation shall not affect the rights and duties of the selling Bank hereunder to the Borrower and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Bank as it relates to such participant, reduce the amount of any commitment fees or Letter of Credit Fees to which such participant is entitled or extend any regularly scheduled payment date for principal or interest.

19.6. DISCLOSURE. The Borrower agrees that in addition to disclosures made in accordance with standard and customary banking practices any Bank may disclose information obtained by such Bank pursuant to this Credit Agreement to assignees or participants and potential assignees or participants hereunder; provided that such assignees or participants or potential assignees or participants shall agree (a) to treat in confidence such information unless such information otherwise becomes public knowledge, (b) not to disclose such information to a third party, except as required by law or legal process and (c) not to make use of such information for purposes of transactions unrelated to such contemplated assignment or participation.

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19.7. ASSIGNEE OR PARTICIPANT AFFILIATED WITH THE BORROWER. If any assignee Bank is an Affiliate of the Borrower, then any such assignee Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to ss.14.1 or ss.14.2, and the determination of the Majority Banks shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to such assignee Bank's interest in any of the Loans or Reimbursement Obligations. If any Bank sells a participating interest in any of the Loans or Reimbursement Obligations to a participant, and such participant is the Borrower or an Affiliate of the Borrower, then such transferor Bank shall promptly notify the Agent of the sale of such participation. A transferor Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to ss.14.1 or ss.14.2 to the extent that such participation is beneficially owned by the Borrower or any Affiliate of the Borrower, and the determination of the Majority Banks shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to the interest of such transferor Bank in the Loans or Reimbursement Obligations to the extent of such participation.

19.8. MISCELLANEOUS ASSIGNMENT PROVISIONS. Any assigning Bank shall retain its rights to be indemnified pursuant to ss.17 with respect to any claims or actions arising prior to the date of such assignment. If any assignee Bank is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Borrower and the Agent certification as to its exemption from deduction or withholding of any United States federal income taxes. If any Reference Bank transfers all of its interest, rights and obligations under this Credit Agreement, the Agent shall, in consultation with the Borrower and with the consent of the Borrower and the Majority Banks, appoint another Bank to act as a Reference Bank hereunder. Anything contained in this ss.20 to the contrary notwithstanding, any Bank may at any time pledge all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to any of the twelve Federal Reserve Banks organized under ss.4 of the Federal Reserve Act, 12 U.S.C. ss.341. No such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents.

19.9. ASSIGNMENT BY BORROWER. The Borrower shall not assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Banks.

#### 20. NOTICES, ETC.

Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes or any Letter of Credit Applications shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent

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by overnight courier, or sent by telegraph, telecopy, facsimile or telex and confirmed by delivery via courier or postal service, addressed as follows:

(a) if to the Borrower, at 8105 Irvine Center Drive, Irvine, California 92718, Attention: Mr. Duston Williams, or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice;

(b) if to the Agent, at 100 Federal Street, Boston, Massachusetts 02110, USA, Attention: High Technology Division, with a copy to 435 Tasso Street, Suite 250, Palo Alto, California 94301, USA, Attention: Maia D. Heymann, Vice President, or such other address for notice as the Agent shall last have furnished in writing to the Person giving the notice; and

(c) if to any Bank, at such Bank's address set forth on Schedule 1 hereto, or such other address for notice as such Bank shall have last furnished in writing to the person giving the notice.

Any such notice or demand shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand, overnight courier or facsimile to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer or the sending of such facsimile and (ii) if sent by registered or certified first-class mail, postage prepaid, on the third Business Day following the mailing thereof.

#### 21. GOVERNING LAW.

THIS CREDIT AGREEMENT AND, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN SS.20. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

#### 22. HEADINGS.

The captions in this Credit Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

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## 23. COUNTERPARTS.

This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

## 24. ENTIRE AGREEMENT, ETC.

The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in ss.26.

## 25. WAIVER OF JURY TRIAL.

The Borrower hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Credit Agreement, the Notes or any of the other Loan Documents, any rights or obligations hereunder or thereunder or the performance of which rights and obligations. Except as prohibited by law, the Borrower hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Borrower (a) certifies that no representative, agent or attorney of any Bank or the Agent has represented, expressly or otherwise, that such Bank or the Agent would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that the Agent and the Banks have been induced to enter into this Credit Agreement, the other Loan Documents to which it is a party by, among other things, the waivers and certifications contained herein.

## 26. CONSENTS, AMENDMENTS, WAIVERS, ETC.

Any consent or approval required or permitted by this Credit Agreement to be given by the Banks may be given, and any term of this Credit Agreement, the other Loan Documents or any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or any of its Subsidiaries of any terms of this Credit Agreement, the other Loan Documents or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Majority Banks. Notwithstanding the foregoing, a decrease in the rate of interest on the Notes (other than interest accruing pursuant to ss.6.11.2 following the effective date of any waiver by the Majority Banks of the Default or Event of Default relating thereto), the term of the Notes, the date fixed for payment of any amounts owing pursuant to this Credit Agreement or the other Loan Documents, the amount of the Commitments of the Banks, this ss.26, and the amount of Commitment Fee or Letter of Credit fees hereunder may not be changed without the written consent of the Borrower and the written consent of each Bank; the release of any of the Guarantors or all or substantially all of any Collateral held by the Agent for the benefit of

the Banks may not be changed without the written consent of the Borrower and the written consent of the Supermajority Banks; the definition of Majority Banks may not be amended without the written consent of all of the Banks; the Revolving Credit Loan Maturity Date and the Term Loan Maturity Date may not be postponed without the written consent of each of the Banks, the amount of the Agent's fee or any Letter of Credit fees payable for the Agent's account may not be amended without the consent of the Agent and ss.16 may not be amended without the written consent of the Agent. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Agent or any Bank in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

#### 27. SEVERABILITY.

The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

#### 28. CONFIDENTIALITY.

28.1. CONFIDENTIALITY. Each of the Banks and the Agent agrees, on behalf of itself and each of its affiliates, directors, officers, employees and representatives, to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower or any of its Subsidiaries pursuant to this Credit Agreement that is identified by such Person as being confidential at the time the same is delivered to the Banks or the Agent, provided that nothing herein shall limit the disclosure of any such information (a) after such information shall have become public other than through a violation of this ss.28, (b) to the extent required by statute, rule, regulation or judicial process, (c) to counsel for any of the Banks or the Agent, (d) to bank examiners or any other regulatory authority having jurisdiction over any Bank or the Agent, or to auditors or accountants, (e) to the Agent or any Bank, (f) in connection with any litigation to which any one or more of the Banks or the Agent is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (g) to a Subsidiary or affiliate of such Bank as provided in ss.28.1 or (h) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant agrees to be bound by the provisions of ss.19.6.

28.2. PRIOR NOTIFICATION. Unless specifically prohibited by applicable law or court order, each of the Banks and the Agent shall, prior to disclosure thereof, notify the Borrower of any request for disclosure of any such non-public information by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Bank by such governmental agency) or pursuant to legal process.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WESTERN DIGITAL CORPORATION

By: -----  
Name: Steven M. Slavin  
Title: Vice President, Taxes and Treasurer

BANKBOSTON, N.A.,  
individually and as Agent

By: -----  
Name: Maia D. Heymann  
Vice President

FORM OF  
BORROWING BASE REPORT

----- --, ----

To Each of the Banks Referred to Below  
c/o BankBoston, N.A., as Agent  
100 Federal Street  
Boston, Massachusetts 02110

Ladies and Gentlemen:

Reference is made to the Revolving Credit and Term Loan Agreement, dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement"), among Western Digital Corporation (the "Borrower"), the lending institutions listed on Schedule 1 thereto and such other lending institutions as may become parties thereto from time to time in accordance with the provisions thereof (the "Banks") and BankBoston, N.A., as agent for the Banks (the "Agent"). Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as therein.

The undersigned hereby certifies as follows: (a) the information furnished in the materials attached hereto was true, correct and complete as at the last day of the calendar month immediately preceding the date of this certificate; (b) as of the date hereof, there exists no Default or Event of Default; and (c) the representations and warranties contained in ss.8 of the Credit Agreement were correct when made and are correct at and as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties related expressly to an earlier date).

IN WITNESS WHEREOF, the undersigned has executed this Borrowing Base Certificate on behalf of Western Digital Corporation as of the date first written above.

WESTERN DIGITAL CORPORATION

By: \_\_\_\_\_  
Title:

BORROWING BASE WORKSHEET  
 WESTERN DIGITAL CORPORATION  
 As of \_\_\_\_\_, \_\_\_\_

1. Accounts Receivable of the Borrower and the Domestic Subsidiaries:	\$ _____
Less: a. Accounts Receivable that the Borrower does not reasonably and in good faith believe are collectible	\$ _____
Less: b. Accounts Receivable that are with account debtors or obligors that are Affiliates, not purchased in an arm's length transaction, are insolvent, or are not creditworthy	\$ _____
Less: c. Accounts Receivable which are subject to any lien or encumbrance (other than in favor of the Agent under the Loan Documents)	\$ _____
Less: d. Accounts Receivable which are more than sixty (60) days past due	\$ _____
Less: e. Other adjustments set forth in the definition of Eligible Domestic Accounts Receivable	\$ _____
Equals: f. Eligible Domestic Accounts Receivable	\$ _____
g. Multiplied by 0.80	\$ _____
2. Accounts Receivable of Western Digital (U.K) Limited:	\$ _____
Less: a. Accounts Receivable that the Borrower does not reasonably and in good faith believe are collectible	\$ _____
Less: b. Accounts Receivable that are with account debtors or obligors that are Affiliates, not purchased in an arm's length transaction, are insolvent, or are not creditworthy	\$ _____
Less: c. Accounts Receivable which are subject	

to any lien or encumbrance (other than in favor of the Agent under the Loan Documents) \$ \_\_\_\_\_

Less: d. Accounts Receivable which are more than sixty (60) days past due \$ \_\_\_\_\_

Less: e. Other adjustments set forth in the definition of Eligible UK Accounts Receivable \$ \_\_\_\_\_

Equals: f. Eligible UK Accounts Receivable \$ \_\_\_\_\_

g. Multiplied by 0.60 \$ \_\_\_\_\_

h. Amount of Item 2(g) which the Borrower elects to include in Borrowing Base and which are subject to the Guarantee by WD UK (the "Specified Intercompany Amount"): \$ \_\_\_\_\_

3. Accounts Receivable of Western Digital (Deutschland) GmbH (but only to the extent the Foreign Subsidiary Note and the Borrower's or the Agent's, as the case may be, security interest in the assets of such Foreign Subsidiary securing such Foreign Subsidiary Note are subject to a first priority perfected lien in favor of the Agent): \$ \_\_\_\_\_

Less: a. Accounts Receivable that the Borrower does not reasonably and in good faith believe are collectible \$ \_\_\_\_\_

Less: b. Accounts Receivable that are with account debtors or obligors that are Affiliates, not purchased in an arm's length transaction, are insolvent, or are not creditworthy \$ \_\_\_\_\_

Less: c. Accounts Receivable which are subject to any lien or encumbrance (other than in favor of the Agent under the Loan Documents) \$ \_\_\_\_\_

Less: d. Accounts Receivable which are more than sixty (60) days past due \$ \_\_\_\_\_

Less: e. Other adjustments set forth in the definition of Eligible Foreign Accounts Receivable \$ \_\_\_\_\_

Equals: f.	Eligible Foreign Accounts Receivable	\$ _____
	g. Multiplied by 0.60	\$ _____
	h. Outstanding principal amount under the Foreign Subsidiary Note:	\$ _____
	h. The amount which is the lesser of the outstanding amount of the Foreign Subsidiary Note and 3(g) above	\$ _____
4.	Reserves	\$ _____
5.	Borrowing Base Availability Item 1(g) plus Item 2(h) plus Item 3(h) minus Item 4	\$ _____
6.	Availability for Revolving Credit Loans: Lesser of Total Commitment or Item 5.	\$ _____
7. a.	Revolving Credit Loans Outstanding	\$ _____
	b. Maximum Drawing Amount of all Letters of Credit outstanding	\$ _____
	c. Total Outstanding Item 7(a) plus Item 7(b)	\$ _____
8.	Availability: Item 5 minus Item 7(c)	\$ _____

## FORM OF REVOLVING CREDIT NOTE

\$ \_\_\_\_\_

as of January 28, 1998

FOR VALUE RECEIVED, the undersigned WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower"), hereby promises to pay to the order of [INSERT NAME OF LENDER] (the "Bank") at the Agent's Head Office (as such term is defined in the Credit Agreement referred to below):

(a) prior to or on Revolving Credit Loan Maturity Date the principal amount of \_\_\_\_\_ DOLLARS (\$\_\_\_\_\_) or, if less, the aggregate unpaid principal amount of Revolving Credit Loans advanced by the Bank to the Borrower pursuant to the Revolving Credit and Term Loan Agreement dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement"), among the Borrower, the Bank and other parties thereto;

(b) the principal outstanding hereunder from time to time at the times provided in the Credit Agreement; and

(c) interest on the principal balance hereof from time to time outstanding from the Closing Date under the Credit Agreement through and including the maturity date hereof at the times and at the rate provided in the Credit Agreement.

This Note evidences borrowings under and has been issued by the Borrower in accordance with the terms of the Credit Agreement. The Bank and any holder hereof is entitled to the benefits of the Credit Agreement, the Security Documents and the other Loan Documents, and may enforce the agreements of the Borrower contained therein, and any holder hereof may exercise the respective remedies provided for thereby or otherwise available in respect thereof, all in accordance with the respective terms thereof. All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower irrevocably authorizes the Bank to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or at the time of receipt of any payment of principal of this Note, an appropriate notation on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, reflecting the making of such Revolving Credit

Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans set forth on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, maintained by the Bank with respect to any Revolving Credit Loans shall be prima facie evidence of the principal amount thereof owing and unpaid to the Bank, but the failure to record, or any error in so recording, any such amount on any such grid, continuation or other record shall not limit or otherwise affect the obligation of the Borrower hereunder or under the Credit Agreement to make payments of principal of and interest on this Note when due.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any one or more of the Events of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

No delay or omission on the part of the Bank or any holder hereof in exercising any right hereunder shall operate as a waiver of such right or of any other rights of the Bank or such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar or waiver of the same or any other right on any further occasion.

The Borrower and every endorser and guarantor of this Note or the obligation represented hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or person primarily or secondarily liable.

THIS NOTE AND THE OBLIGATIONS OF THE BORROWER HEREUNDER SHALL FOR ALL PURPOSES BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND THE CONSENT TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN SS.20 OF THE CREDIT AGREEMENT. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT

OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

This Note shall be deemed to take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts.

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IN WITNESS WHEREOF, the undersigned has caused this Revolving Credit Note to be signed in its corporate name and its corporate seal to be impressed thereon by its duly authorized officer as of the day and year first above written.

[Corporate Seal]

WESTERN DIGITAL CORPORATION

By: \_\_\_\_\_  
Title:

Date	Amount of Loan	Amount of Principal Paid or Prepaid	Balance of Principal Unpaid	Notation Made By:
-----	-----	-----	-----	-----

FORM OF LOAN REQUEST

[insert date]

BankBoston, N.A., as Agent  
100 Federal Street  
Boston, Massachusetts 02110

Re: Loan Request

Ladies and Gentlemen:

Reference is hereby made to that certain Revolving Credit and Term Loan Agreement, dated as of January 28, 1998 (as the same may be amended and in effect from time to time, the "Credit Agreement"), among Western Digital Corporation (the "Borrower"), the lending institutions which are or may become parties thereto from time to time (collectively, the "Banks"), and BankBoston, N.A., as agent (the "Agent") for the Banks. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

Pursuant to ss.2.6 of the Credit Agreement, we hereby request that a Revolving Credit Loan consisting of [a Base Rate Loan in the principal amount of \$\_\_\_\_\_, or a Eurodollar Rate Loan in the principal amount of \$\_\_\_\_\_ with an Interest Period of \_\_\_\_\_] be made on \_\_\_\_\_, \_\_. We understand that this request is irrevocable and binding on us and obligates us to accept the requested Revolving Credit Loan on such date.

We hereby certify (a) that the aggregate outstanding principal amount of the Revolving Credit Loans on today's date is \$\_\_\_\_\_, (b) that we will use the proceeds of the requested Revolving Credit Loan in accordance with the provisions of the Credit Agreement, (c) that each of the representations and warranties contained in the Credit Agreement or in any document or instrument delivered pursuant to or in connection with the Credit Agreement was true as of the date as of which it was made and is true at and as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties related expressly to an earlier date) and (d) that no Default or Event of Default has occurred and is continuing.

Very truly yours,

WESTERN DIGITAL CORPORATION

By:

-----  
Name:  
Title:

## EXHIBIT D

## FORM OF TERM NOTE

\$ \_\_\_\_\_

as of January 28, 1998

FOR VALUE RECEIVED, the undersigned WESTERN DIGITAL CORPORATION, a Delaware corporation, (the "Borrower"), hereby promises to pay to the order of [INSERT NAME OF LENDER] (the "Bank") at the Agent's Head Office (as defined in the Credit Agreement referred to below):

(a) prior to or on Term Loan Maturity Date the principal amount of \_\_\_\_\_ DOLLARS (\$\_\_\_\_\_), evidencing the Term Loan made by the Bank to the Borrower pursuant to the Revolving Credit and Term Loan Agreement dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among the Borrower, the Bank and other parties thereto;

(b) the principal outstanding hereunder from time to time at the times provided in the Credit Agreement; and

(c) interest from the date hereof on the principal amount from time to time outstanding to and including the maturity hereof at the rates and terms and in all cases in accordance with the terms of the Credit Agreement.

This Note evidences borrowings under and has been issued by the Borrower in accordance with the terms of the Credit Agreement. The Bank and any holder hereof is entitled to the benefits of the Credit Agreement, the Security Documents and the other Loan Documents, and may enforce the agreements of the Borrower contained therein, and any holder hereof may exercise the respective remedies provided for thereby or otherwise available in respect thereof, all in accordance with the respective terms thereof. All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower irrevocably authorizes the Bank to make or cause to be made, at the time of receipt of any payment of principal of this Note, an appropriate notation on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, reflecting the receipt of such payment. The outstanding amount of the Term Loan set forth on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, maintained by the Bank with respect to the Term Loan shall be

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prima facie evidence of the principal amount of the Term Loan owing and unpaid to the Bank, but the failure to record, or any error in so recording, any such amount on any such grid, continuation or other record shall not limit or otherwise affect the obligation of the Borrower hereunder or under the Credit Agreement to make payments of principal of and interest on this Note when due.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any one or more of the Events of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

No delay or omission on the part of the Bank or any holder hereof in exercising any right hereunder shall operate as a waiver of such right or of any other rights of the Bank or such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar or waiver of the same or any other right on any future occasion.

The Borrower and every endorser and guarantor of this Note or the obligation represented hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or person primarily or secondarily liable.

THIS NOTE AND THE OBLIGATIONS OF THE BORROWER HEREUNDER SHALL FOR ALL PURPOSES BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND THE CONSENT TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN SS.20 OF THE CREDIT AGREEMENT. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

This Note shall be deemed to take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the undersigned has caused this Note to be signed in its corporate name and its corporate seal to be impressed thereon by its duly authorized officer as of the day and year first above written.

[Corporate Seal]

WESTERN DIGITAL CORPORATION

By: \_\_\_\_\_  
Title:

FORM OF COMPLIANCE CERTIFICATE

[date]

BankBoston, N.A., as Agent  
100 Federal Street  
Boston, Massachusetts 02110

Attention: High Technology Division

Ladies and Gentlemen:

Reference is made to the Revolving Credit and Term Loan Agreement, dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among Western Digital Corporation (the "Borrower"), BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (collectively, the "Banks") and BankBoston, N.A. as agent for the Banks (the "Agent"). Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the respective meanings assigned to such terms in the Credit Agreement.

Pursuant to ss.9.4(c) of the Credit Agreement, the principal financial or accounting officer of the Borrower hereby certifies to you as follows: (a) the information furnished in the calculations attached hereto was true and correct as of the last day of the fiscal [year] [quarter] [month] ended \_\_\_\_\_; (b) as of the date of this certificate, there exists no Default or Event of Default or condition which would, with either or both the giving of notice or the lapse of time, result in a Default or an Event of Default; and (c) the financial statements delivered herewith were prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior periods.

IN WITNESS WHEREOF, the undersigned officer has executed this Compliance Certificate as of the date first written above.

WESTERN DIGITAL CORPORATION

By:

-----

Title:

COMPLIANCE CERTIFICATE  
WESTERN DIGITAL CORPORATION

## 11.1. PROFITABLE OPERATIONS

(a) Consolidated Net Operating Income for quarter ended \_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_ (not to be less than the amounts set forth in  
 ss.11.1 of the Credit Agreement)

## 11.2. FIXED RATE COVERAGE RATIO

(a) EBITDA for Reference Period ended \_\_\_\_\_ \$ \_\_\_\_\_  
 (i) Consolidated Net Income for such  
 period, plus (without duplication) \$ \_\_\_\_\_  
 (ii) depreciation for such period, plus \$ \_\_\_\_\_  
 (iii) amortization for such period, plus \$ \_\_\_\_\_  
 (iv) income tax expense for such period, plus \$ \_\_\_\_\_  
 (v) Consolidated Total Interest Expense  
 for such period \$ \_\_\_\_\_  
 (b) Rental Obligations for such period \$ \_\_\_\_\_  
 (c) Sum of (a) plus (b) \$ \_\_\_\_\_  
 (d) Consolidated Total Cash Interest Expense for such period \$ \_\_\_\_\_  
 (e) Rental Obligations for such period \$ \_\_\_\_\_  
 (f) Sum of (d) plus (e) \$ \_\_\_\_\_  
 (g) Ratio of (c) to (f) \_\_\_\_\_ : \_\_\_\_\_  
 (Not to be less than the ratio set forth in ss.11.2 of the  
 Credit Agreement for the relevant periods described therein)

## 11.3. LEVERAGE

(a) Consolidated Total Liabilities as of \_\_\_\_\_ \$ \_\_\_\_\_  
 (b) Other Indebtedness specified in clauses (f), (g),  
 (j) or (k) of the definition of "Indebtedness" which  
 is not reflected on the Company's consolidated balance  
 sheet as a liability as of \_\_\_\_\_ \$ \_\_\_\_\_  
 (c) Outstanding amount of Subordinated Notes for such period \$ \_\_\_\_\_  
 (d) Sum of (a) plus (b) minus (c) \$ \_\_\_\_\_  
 (e) Shareholder equity \$ \_\_\_\_\_  
 (f) Consolidated Intangible Assets for such period \$ \_\_\_\_\_  
 (g) (e) minus (f) \$ \_\_\_\_\_  
 (h) Ratio of (d) to (g) \_\_\_\_\_ : \_\_\_\_\_  
 (Not to be less than amounts set forth in Credit Agreement)

## 11.4. CONSOLIDATED TANGIBLE NET WORTH

- (a) Consolidated Tangible Net Worth at time of determination \$ \_\_\_\_\_
- (b) \$435,000,000
- (c) [seventy five percent (75%)] [fifty percent (50%)] of positive Consolidated Net Income for such period \$ \_\_\_\_\_
- (d) one hundred percent (100%) of purchase price paid during such period to repurchase capital stock \$ \_\_\_\_\_
- (e) Sum of (b) plus (c), less (d) \$ \_\_\_\_\_
- ((a) not to be less than (e) at any time)

## 11.5 CAPITAL EXPENDITURES

- (a) Capital Expenditures made in such period \$ \_\_\_\_\_
- (b) Capital Expenditures made in such fiscal year to date \$ \_\_\_\_\_  
(Not to exceed \$275,000,000 for 1998 and 1999 fiscal years and \$300,000,000 in each fiscal year thereafter)

FORM OF  
INSTRUMENT OF ADHERENCE  
(CREDIT AGREEMENT)

Dated as of \_\_\_\_\_

BankBoston, N.A., as Agent  
and the Banks referred to below  
100 Federal Street  
Boston, Massachusetts 02110

Ladies and Gentlemen:

Reference is made to that certain Revolving Credit and Term Loan Agreement, dated as of January 28, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among Western Digital Corporation, a Delaware corporation (the "Borrower"), BankBoston, N.A. and the other lenders which may become parties thereto from time to time (collectively, the "Banks"), and BankBoston, N.A. as agent for the Banks (the "Agent"). Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

The undersigned [NAME OF GUARANTOR SUBSIDIARY], a [GUARANTOR SUBSIDIARY ENTITY] hereby agrees to become a Guarantor under and party to the Credit Agreement and to comply with and be bound by all of the terms, conditions and covenants thereof all with the same effect as if it had executed the Credit Agreement on the Closing Date. Concurrently with the execution of this Instrument of Adherence, the undersigned has become a party to each of the Guaranty and the Security Agreement and agrees to be bound thereby as if it had been a party to each of the Guarantor and the Security Agreement from the Closing Date.

The undersigned represents and warrants to the Banks and the Agent that:

- a. it is a [wholly-owned] Subsidiary of the Borrower;
- b. no provision of its charter, other incorporation papers, by-laws or stock provisions prohibits the undersigned from making distributions to the Borrower;

- c. it is capable of complying with and is in compliance with all of the provisions of the Credit Agreement;
- d. its chief executive office and principal place of business is located at \_\_\_\_\_ ; and
- e. its books and records are kept at \_\_\_\_\_ .

The undersigned hereby affirms that each of the representations and warranties set forth in ss.8 of the Credit Agreement is true and correct in all material respects with respect to the undersigned as of the date hereof (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and except to the extent that such representations and warranties relate expressly to an earlier date).

The following documents shall be delivered to the Agent concurrently with this Instrument of Adherence:

- a. a legal opinion of \_\_\_\_\_ as to the legal, valid and binding nature of the Loan Documents, as supplemented hereby, with respect to the Borrower and the Guarantors, including, without limitation, the undersigned;
- b. copies, certified by a duly authorized officer of the undersigned to be true and complete as of the date hereof, of each of (i) the charter documents of the undersigned as in effect on the date hereof, (ii) the by-laws of the undersigned as in effect on the date hereof, (iii) the resolutions of the Board of Directors of the undersigned authorizing the execution and delivery of this Instrument of Adherence and the undersigned's performance of all of the transactions contemplated hereby, and (iv) an incumbency certificate giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the undersigned's name and on its behalf, each of this Instrument of Adherence and the other Loan Documents, and to give notices and to take other action on its behalf under the Loan Documents;
- c. a certificate of the Secretary of State of \_\_\_\_\_ of a recent date as to the undersigned's corporate existence, good standing and tax payment status;
- d. a security agreement in form and substance satisfactory to the Agent and the Banks;
- e. UCC-1 financing statements and other documents and instruments necessary to perfect the Agent's security interest for the benefit of the Banks in all of the undersigned's assets; and
- f. such other documents as the Agent may reasonably request.

This Instrument of Adherence shall take effect as a sealed instrument and shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

Very truly yours.

[INSERT NAME OF GUARANTOR  
SUBSIDIARY]

By: \_\_\_\_\_

Title:

Guarantor's address for purposes of ss.20 of  
the Credit Agreement:

[INSERT ADDRESS]

Accepted and Agreed:

BANKBOSTON, N.A., INDIVIDUALLY AND AS AGENT

By: \_\_\_\_\_

Title:

[INSERT ADDITIONAL BANKS]

## ASSIGNMENT AND ACCEPTANCE

Dated as of \_\_\_\_\_

Reference is made to the Revolving Credit and Term Loan Agreement, dated as of January 28, 1998 (as from time to time amended and in effect, the "Credit Agreement"), by and among WESTERN DIGITAL CORPORATION, a Delaware corporation (the "Borrower"), the lending institutions referred to therein as Banks (collectively, the "Banks"), and BANKBOSTON, N.A., a national banking association, as agent (in such capacity, the "Agent") for the Banks. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") hereby agree as follows:

1. ASSIGNMENT. Subject to the terms and conditions of this Assignment and Acceptance, the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes without recourse to the Assignor, a \$\_\_\_\_\_ interest in and to the rights, benefits, indemnities and obligations of the Assignor under the Credit Agreement equal to \_\_\_% in respect of the Total Commitment and the Term Loan immediately prior to the Effective Date (as hereinafter defined).

2. ASSIGNOR'S REPRESENTATIONS. The Assignor (a) represents and warrants that (i) it is legally authorized to enter into this Assignment and Acceptance, (ii) as of the date hereof, its Commitment is \$\_\_\_\_\_, its Commitment Percentage is \_\_%, the aggregate outstanding principal balance of its Revolving Credit Loans equals \$\_\_\_\_\_, the aggregate amount of its Letter of Credit Participations equals \$\_\_\_\_\_ and the aggregate outstanding balance of its Term Loan equals \$\_\_\_\_\_ (in each case prior to giving effect to the assignment contemplated hereby but after giving effect to any contemplated assignments which have not yet become effective), and (iii) immediately after giving effect to all assignments which have not yet become effective, the Assignor's Commitment Percentage will be sufficient to give effect to this Assignment and Acceptance, (b) makes no representation or warranty, express or implied, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any of the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant thereto or the attachment, perfection or priority of any security interest or mortgage, other than that it is the legal and beneficial owner

of the interest being assigned by it hereunder free and clear of any claim or encumbrance; (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any of its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations, or the performance or observance by the Borrower or any of its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations of any of its obligations under the Credit Agreement or any of the other Loan Documents or any other instrument or document delivered or executed pursuant thereto; and (d) attaches hereto the Revolving Credit Note and Term Note delivered to it under the Credit Agreement.

The Assignor requests that the Borrower exchange the Assignor's Revolving Credit Note and Term Note for new Revolving Credit and Term Notes payable to the Assignor and the Assignee as follows:

Notes Payable to the Order of:	Amount of Revolving Credit Note	Amount of Term Note
Assignor	\$ _____	\$ _____
Assignee	\$ _____	\$ _____

3. ASSIGNEE'S REPRESENTATIONS The Assignee (a) represents and warrants that (i) it is duly and legally authorized to enter into this Assignment and Acceptance, (ii) the execution, delivery and performance of this Assignment and Acceptance do not conflict with any provision of law or of the charter or by-laws of the Assignee, or of any agreement binding on the Assignee, (iii) all acts, conditions and things required to be done and performed and to have occurred prior to the execution, delivery and performance of this Assignment and Acceptance, and to render the same the legal, valid and binding obligation of the Assignee, enforceable against it in accordance with its terms, have been done and performed and have occurred in due and strict compliance with all applicable laws; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to ss.ss.8.4 and 9.4 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (c) agrees that it will, independently and without reliance upon the Assignor, the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (d) represents and warrants that it is an Eligible Assignee; (e) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (f) agrees that it will perform in accordance with their terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (g) acknowledges that it has made arrangements with the Assignor satisfactory to the Assignee with

respect to its pro rata share of Letter of Credit Fees in respect of outstanding Letters of Credit.

4. EFFECTIVE DATE. The effective date for this Assignment and Acceptance shall be \_\_\_\_\_ (the "Effective Date"). Following the execution of this Assignment and Acceptance and the consent of the Borrower hereto having been obtained, each party hereto shall deliver its duly executed counterpart hereof to the Agent for acceptance by the Agent and recording in the Register by the Agent. Schedule 1 to the Credit Agreement shall thereupon be replaced as of the Effective Date by the Schedule 1 annexed hereto.

5. RIGHTS UNDER CREDIT AGREEMENT. Upon such acceptance and recording, from and after the Effective Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Bank thereunder, and (b) the Assignor shall, with respect to that portion of its interest under the Credit Agreement assigned hereunder, relinquish its rights and be released from its obligations under the Credit Agreement; provided, however, that the Assignor shall retain its rights to be indemnified pursuant to ss.17 of the Credit Agreement with respect to any claims or actions arising prior to the Effective Date.

6. PAYMENTS. Upon such acceptance of this Assignment and Acceptance by the Agent and such recording, from and after the Effective Date, the Agent shall make all payments in respect of the rights and interests assigned hereby (including payments of principal, interest, fees and other amounts) to the Assignee. The Assignor and the Assignee shall make any appropriate adjustments in payments for periods prior to the Effective Date by the Agent or with respect to the making of this assignment directly between themselves.

7. GOVERNING LAW. THIS ASSIGNMENT AND ACCEPTANCE IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

8. COUNTERPARTS. This Assignment and Acceptance may be executed in any number of counterparts which shall together constitute but one and the same agreement.

IN WITNESS WHEREOF, intending to be legally bound, each of the undersigned has caused this Assignment and Acceptance to be executed on its behalf by its officer thereunto duly authorized, as of the date first above written.

[INSERT NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title:

[INSERT NAME OF ASSIGNEE]

By: \_\_\_\_\_  
Title:

CONSENTED TO:

WESTERN DIGITAL CORPORATION

By: \_\_\_\_\_  
Title:

BANKBOSTON, N.A., as Agent

By: \_\_\_\_\_  
Title:

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF OPERATIONS AND BALANCE SHEETS OF WESTERN DIGITAL CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH QUARTERLY REPORT ON FORM 10-Q FOR THE SIX-MONTH PERIOD ENDED DECEMBER 27, 1997.

6-MOS		
	JUN-27-1998	
	JUN-29-1997	
	DEC-27-1997	
		119,339
		0
		493,859
		13,491
		285,404
	923,709	
		521,656
		204,815
	1,271,436	
696,034		0
	0	
		0
		872
		539,988
1,271,436		
		2,059,728
	2,059,728	
		1,954,217
		1,954,217
		180,646
		1,854
		4,603
		(70,532)
		11,944
(82,476)		0
		0
		0
		(82,476)
		(.95)
		(.95)