

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

APPLIED MAGNETICS CORP

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GOLETA CA 93117

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8056835353

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

- (X) Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 1994
- () Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 1-6635

APPLIED MAGNETICS CORPORATION

(Exact name of registrant as specified in its charter)

A Delaware Corporation
(State or other jurisdiction of
incorporation or organization)

95-1950506
(I.R.S. Employer
Identification No.)

75 Robin Hill Road, Goleta, California 93117
(Address of principal executive offices)

Registrant's telephone number, including area code: (805) 683-5353

(No Change)

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

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 ninety days. Yes X No_

Indicate the number of shares outstanding of each of the issuer's classes of common stock: 22,163,812 \$.10 par value common stock as of April 29, 1994.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited condensed consolidated financial statements included herein have been prepared by Applied Magnetics Corporation and its subsidiaries (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements and selected notes included therein should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993.

The following unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, which, in the opinion of management, are necessary to present fairly the consolidated financial position and results of operations for the periods presented.

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APPLIED MAGNETICS CORPORATION AND SUBSIDIARIES
Consensed Consolidated Statements of Operations - Unaudited
(In thousands except share and per share data)

<TABLE>
<CAPTION>

	For the three months ended March 31,		For the six months ended March 31,	
	1994	1993	1994	1993
	<C>	<C>	<C>	<C>
Net sales	\$ 69,834	\$ 86,871	\$ 141,078	\$ 161,427
Cost of sales	66,492	69,733	133,989	130,269
Gross profit	3,342	17,138	7,089	31,158
Research and development expenses, net	6,690	3,807	10,794	7,605
Selling, general and administrative expenses	5,131	6,937	10,421	13,328
Total operating expenses	11,821	10,744	21,215	20,933
Income (Loss) from operations	(8,479)	6,394	(14,126)	10,225
Interest income	221	247	505	360
Interest expense	(884)	(2,417)	(1,880)	(4,043)
Other income, net	71	526	389	874
Income (Loss) before taxes	(9,071)	4,750	(15,112)	7,416
Provision for income taxes	304	1,136	508	1,669
Net income (loss)	\$ (9,375)	\$ 3,614	\$ (15,620)	\$ 5,747
Net income (loss) per share:				
Primary	\$ (0.42)	\$ 0.18	\$ (0.71)	\$ 0.31
Fully diluted	\$ (0.42)	\$ 0.17	\$ (0.71)	\$ 0.30
Weighted average common and dilutive equivalent shares outstanding:				
Primary	22,087,274	20,623,383	22,083,155	18,813,004
Fully diluted	22,087,274	21,487,742	22,083,155	19,479,986

</TABLE>

The accompanying Selected Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

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APPLIED MAGNETICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets - Unaudited
(In thousands except share and par value data)

ASSETS

<TABLE>
<CAPTION>

	March 31,	September 30,
	1994	1993
	<C>	<C>
Current assets:		
Cash and equivalents	\$ 32,624	\$ 49,371
Accounts receivable, net	43,364	37,873
Inventories	40,801	42,426
Receivable due from Hitachi Metals, LTD.	2,074	5,170
Prepaid expenses and other	8,968	7,528
	127,851	142,368
Property, plant and equipment, at cost	287,186	271,432
Less-accumulated depreciation	(157,603)	(152,024)
	129,583	119,408

Notes receivable, net	8,941	9,630
Other assets	9,275	7,110
	-----	-----
	\$ 275,650	\$ 278,516
	=====	=====

<CAPTION>

LIABILITIES AND SHAREHOLDERS' INVESTMENT

<S>	<C>	<C>
Current liabilities:		
Current portion of long-term debt	\$ 21,422	\$ 10,435
Notes payable	45,622	35,198
Accounts payable	36,602	28,287
Accrued payroll and benefits	10,387	12,145
Unearned revenue	--	3,383
Other current liabilities	17,546	19,000
	-----	-----
	131,579	108,448
	-----	-----
Long-term debt, net	712	11,550
	-----	-----
Other liabilities	7,507	7,423
	-----	-----
Shareholders' investment;		
Preferred stock, \$.10 par value, authorized 5,000,000 shares, none issued and outstanding	--	--
Common stock, \$.10 par value, authorized 40,000,000 shares, issued 22,172,711 as of March 31, 1994, and 22,153,742 as of September 30, 1993	2,217	2,215
Paid-in capital	178,679	178,533
Retained deficit	(43,729)	(28,109)
	-----	-----
	137,167	152,639
	-----	-----
Treasury stock, at cost (79,328 shares as of March 31, 1994, and September 30, 1993)	(736)	(736)
Unearned restricted stock compensation	(579)	(808)
	-----	-----
	135,852	151,095
	-----	-----
	\$ 275,650	\$ 278,516
	=====	=====

</TABLE>

The accompanying Selected Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated balance sheets.

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APPLIED MAGNETICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows - Unaudited
(In thousands)

<TABLE>

<CAPTION>

	For the six months ended March 31,	
	1994	1993
	----	----
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net income (loss)	\$ (15,620)	\$ 5,747
Adjustments to derive cash flows:		
Depreciation and amortization	10,967	13,578
Provision for receivable allowances and related costs	100	300
Deferred tax provision	--	364
Amortization of unearned restricted stock compensation	150	376
Other assets	(12)	(2,196)
Other liabilities	84	(929)
Net assets of discontinued operations	--	(501)
Other, net	1,079	(67)

Working capital changes affecting cash flows from operations:		
License fee receivable	--	9,000
Receivable from broker	--	7,070
Accounts receivable	(5,591)	(13,357)
Receivable due from Hitachi Metals, LTD.	3,096	--
Inventories	1,625	(12,173)
Prepaid expenses and other	(2,261)	(2,924)
Accounts payable	8,315	10,273
Accrued payroll and benefits	(1,758)	855
Unearned revenue	(3,383)	7,000
Other current liabilities	(1,703)	(3,109)
	-----	-----
Net cash flows (used in) provided by operating activities	(4,912)	19,307
	-----	-----
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(23,885)	(34,875)
Proceeds from sale of businesses	--	5,221
Notes receivable	1,490	240
	-----	-----
Net cash flows used in investing activities	(22,395)	(29,414)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from debt	88,609	58,996
Repayment of debt	(78,677)	(73,100)
Proceeds from sale of common stock	--	66,785
Proceeds from stock options exercised	227	2,306
	-----	-----
Net cash flows provided by financing activities	10,159	54,987
	-----	-----
Effect of Exchange Rate Changes on Cash and Equivalents	401	(1,237)
	-----	-----
Net (Decrease) Increase in Cash and Equivalents	(16,747)	43,643
	-----	-----
Cash and Equivalents at Beginning of Period	49,371	11,473
	-----	-----
Cash and Equivalents at End of Period	\$ 32,624	\$ 55,116
	=====	=====

</TABLE>

The accompanying Selected Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

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APPLIED MAGNETICS CORPORATION AND SUBSIDIARIES
Selected Notes to Condensed Consolidated Financial Statements
Unaudited

Note A: Inventories

- - - - -

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventory costs consist of purchased materials and services, direct production labor and manufacturing overhead expense. The components of inventory are as follows (in thousands):

<TABLE>

<CAPTION>

	March 31, ----- 1994 -----	September 30, ----- 1993 -----
<S>	<C>	<C>
Purchased parts and manufacturing supplies	\$17,045	\$13,810
Work in process	21,451	23,541
Finished goods	2,305	5,075
	-----	-----
	\$40,801	\$42,426
	=====	=====

Note B: Capitalized Interest

- - - - -

The cost of buildings and equipment includes interest expense incurred prior to the time such assets are placed in service. Interest expense is net of interest capitalized of \$273,000 for the three months ended March 31, 1993 and of \$147,000 and \$526,000 for the six months ended March 31, 1994, and 1993, respectively. Due to adjustments made to capitalized interest estimates reflected in prior quarters, no interest was capitalized in the second quarter of fiscal 1994.

Note C: License and Technology Development Agreements

- - - - -

In December 1992, the Company received a \$10.0 million payment from Hitachi Metals, Ltd. ("HML") associated with inductive thin-film development efforts under a license and technology agreement entered into in September 1992 (the "HML Agreement") to further the development and manufacturing of advanced thin-film and magnetoresistive thin-film ("MR") magnetic recording disk head technologies and products. The Company recognized \$6.6 million for the fiscal year ended September 30, 1993, and \$3.4 million for the six months ended March 31, 1994, as offsets against development costs incurred during these respective periods. The performance schedule relating to the inductive thin-film development efforts was substantially completed as of March 31, 1994.

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In March 1994, the Company received a \$7.5 million payment from HML associated with the MR development efforts under the HML Agreement. The Company recognized, as offsets against costs incurred for MR development efforts, \$5.2 million for the fiscal year ended September 30, 1993, and \$4.4 million for the six months ended March 31, 1994. The excess of cost offsets recognized to date over actual payments received from HML is \$2.1 million which has been recorded as a Receivable due from Hitachi Metals, Ltd. on the unaudited Condensed Consolidated Balance Sheet at March 31, 1994. Management believes that the remaining MR development efforts required for payment of the remaining \$7.5 million will be substantially completed by September 1994 pursuant to the performance schedule relating to this development activity.

During fiscal year 1993, the Company entered into additional technology development agreements (the "Development Agreements") with four major domestic disk drive companies relating to the development of MR disk head products. Under these Development Agreements, funding of an aggregate of \$4.0 million is to be paid to the Company. Approximately \$2.6 million of this funding was recognized as an offset to development costs in accordance with the contractual billing schedules, of which \$2.1 million and \$0.5 million were recognized as offsets in the fiscal year ended September 30, 1993, and in the first quarter of fiscal year 1994, respectively. This completes the cost offsets available under the Development Agreements. An aggregate of \$1.4 million, which is based on MR disk head deliveries, will be recognized as sales when the products are shipped.

Note D: Restructuring Reserve

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In April 1994, the Company announced plans to transfer the manufacturing operations of its subsidiary, Applied Magnetics Singapore Pte. Ltd. ("AMS"), to the Company's Malaysian facility and to make AMS its primary customer support center for Southeast Asia. The transfer is part of the Company's restructuring plan which was announced in September 1993 and which provides for consolidation of worldwide manufacturing resources. Anticipated costs associated with this transfer were provided for in the fiscal year 1993 restructuring charge. During the six months ended March 31, 1994, costs of approximately \$1.5 million were charged to the 1993 restructuring reserve related to consolidation of manufacturing resources.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results

of Operations

In September 1993, the Company announced a restructuring charge of approximately \$50 million, in response to significant order cancellations and reschedules, anticipated product life cycle changes and related product and technology

transitions, and a loss for the fiscal year ended September 30, 1993. It also announced that it expected to incur operating losses during the first half of fiscal 1994.

During the first half of fiscal year 1994, the Company began volume production shipments for a number of new disk drive programs, some of which utilize thin-film nanoslider (50%) products. The Company is also attempting to qualify on other new drive programs.

While the Company has been successful in achieving "design in" positions on a number of new programs and has made important progress in the design and production of new, advanced thin-film disk heads, including record high levels of output from its six-inch wafer fabrication facility, recent production yield problems, attributable to new product technology, have adversely affected its ability to quickly ramp production of thin-film disk heads to achieve desired levels of volume shipments of these products in response to the current strong market demand. These factors have contributed to the operating losses sustained by the Company and future financial results are not likely to be profitable until the Company is successful in solving its manufacturing and yield problems.

While actions have been, and are being taken to identify and correct these production problems, and while sales during the second half of fiscal 1994 are expected to exceed those for the first half, the Company's return to profitability is dependent upon, among other things, its ability to successfully increase production and reduce average unit costs. However, there are no assurances that either current production problems will be corrected timely or adequately or that other quality or production problems will not arise. Further, if the Company is unable, for these or other reasons, to ramp production and delivery of thin-film disk heads for those disk drive programs on which it has achieved a design-in position, alternate sources of high volume production supply may be selected by certain customers for certain programs.

Additionally, there can be no assurance that the Company will successfully obtain design-in positions on a sufficient number of new programs that it is currently pursuing or that it expects to pursue, or that, having achieved a design-in position, the Company's execution of customer orders will not experience production yield or other manufacturing problems similar to those currently facing the Company. If the Company for any reason were unable to achieve design-ins, or if it is unable to successfully perform on those programs on which it achieves design-in status, the Company's operating results and liquidity would be adversely affected and the operating losses experienced during the first half of fiscal 1994 could continue throughout the remainder of the fiscal year.

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The disk head industry is intensely competitive and largely dependent on sales to a limited number of disk drive manufacturers and systems companies. The market for the Company's disk head products could be adversely affected if one or more disk drive manufacturers were to experience severe financial difficulties, enter into a transaction or combination in which it becomes vertically integrated with a company that has disk head manufacturing capability or undergo a significant loss of market share as a result of the technological innovations of their competitors or various other factors.

A significant reduction in orders from, or loss of a customer, which could occur for any of these circumstances or other reasons, could have a material adverse effect on the Company's operations and financial condition, including collection of accounts receivable and realization of inventories relating to that customer.

During the quarter ended March 31, 1994, the Company announced plans to transfer manufacturing at its subsidiary in Singapore, Applied Magnetics Singapore, Pte. Ltd. ("AMS") to its facility in Malaysia. The transfer, which is part of a previously announced restructuring plan which contemplates a consolidation of the Company's worldwide manufacturing resources, is expected to be completed during the second half of fiscal year 1994.

The Company conducts manufacturing operations and has significant production facilities in the Republic of Korea. Recent developments concerning published reports that the Democratic Peoples Republic of Korea may be developing nuclear weapons capabilities have been accompanied by expressions of concern and tension by and among the governments of the United States, the Peoples Republic of China, the Republic of Korea and the Democratic Peoples Republic of Korea relating to this subject. Should diplomatic efforts to resolve these matters fail and if actual or threatened confrontations involving military action or trade restraints develop, the Company's operating results could be adversely affected.

Net Sales. Total net sales in the second quarter of fiscal 1994 decreased 2.0% from the first quarter of fiscal 1994 and 19.6% from the second quarter of

fiscal 1993. The slight decrease in total net sales in the second quarter from the first quarter of fiscal 1994 is primarily attributable to reduced sales of mature thin-film products and lower average unit prices. The decrease in total net sales in the second quarter of fiscal 1994 from the second quarter of fiscal 1993 is primarily due to the decline of mature ferrite disk head products.

Net sales of ferrite disk head products in the second quarter of fiscal 1994 were

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generally flat from the first quarter of fiscal 1994 and declined 33.1% from the second quarter of fiscal 1993. The decline in sales of ferrite disk head products from the second quarter of fiscal 1993 to the second quarter of fiscal 1994 reflects the continuing maturation of the Company's older ferrite programs as well as unit price erosion and increased supplies of competitively priced thin-film disk heads with equal or superior performance characteristics. The Company anticipates that market demand for ferrite heads will continue to decline for these reasons. Further, the Company has determined that obtaining sales in thin-film disk head products generally represents more attractive opportunities for revenue growth and profit improvement than ferrite disk head business. Accordingly, the Company expects that its sales of ferrite disk head products will decline significantly by the end of fiscal year 1994.

The following table sets forth for the periods indicated, net sales by product line.

<TABLE>
<CAPTION>

	For the three months ended		
	March 31, 1994	December 31, 1993	March 31, 1993
<S>	<C>	<C>	<C>
Thin-film disk head products			
Net sales	\$30,868	\$32,520	\$30,443
Percentage of total	44.2%	45.6%	35.0%
Ferrite disk head products			
Net sales	\$34,172	\$34,721	\$51,111
Percentage of total	48.9%	48.8%	58.9%
Tape head products			
Net sales	\$ 4,794	\$ 4,003	\$ 5,317
Percentage of total	6.9%	5.6%	6.1%
Total net sales	\$69,834	\$71,244	\$86,871

</TABLE>

Gross Profit. The gross margin was 4.8%, 5.3% and 19.7% for the second and first quarters of fiscal 1994 and the second quarter of fiscal 1993, respectively. The decrease in the gross margin percentage during the first half of fiscal 1994, as compared to the second quarter of fiscal 1993, was due primarily to lower sales volumes and sales prices causing a lack of profitability of the Company's more mature products and declines in manufacturing yields associated with the Company's transition towards newer products.

Research and Development. Research and development expenses as a percent of net sales were 9.6%, 5.8%, and 4.4% for the second and first quarters of fiscal 1994 and the second quarter of fiscal 1993, respectively. The increase as a percent of net sales in the second quarter of fiscal 1994 from the first quarter of fiscal 1994 and the second quarter of fiscal 1993, respectively, is primarily due to higher MR development costs being incurred as the Company continues its investment in advanced technology products and processes as well as lower total net sales.

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In connection with the HML Agreement and other MR development agreements, the Company recognized as cost offsets to research and development expenses, an aggregate of \$3.9 million, \$4.5 million, and \$3.7 million for the second and first quarters of fiscal 1994 and the second quarter of fiscal 1993, respectively. Prior to giving effect to such funding, research and development expenses as a percent of net sales were 15.2%, 12.1% and 8.6% for the second and first quarters of fiscal 1994 and the second quarter of fiscal 1993, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percent of net sales were 7.3%, 7.4% and 8.0% for the second and first quarters of fiscal 1994, and the second quarter of fiscal 1993, respectively. The decrease in the first half of fiscal 1994, as compared to the second quarter of fiscal 1993 was primarily due to implementation of cost control measures.

Interest Income and Expense. Interest income in the second quarter of fiscal 1994 was slightly less than the first quarter of fiscal 1994 primarily due to lower cash balances, and generally flat as compared to the same quarter of the prior fiscal year. Interest expense in the second quarter of fiscal 1994 decreased \$.1 million from the first quarter of fiscal 1994 due to lower average interest rates, and decreased \$1.5 million from the same quarter of the prior fiscal year. The second quarter of fiscal 1993 included write off of certain loan origination expenses related to the Company's repayment of the Note Purchase Agreement with the Prudential Insurance Company of America ("Prudential") from the proceeds of the Company's equity offering in February 1993.

Provision for Income Taxes. The Company's provision for income taxes for the six months ended March 31, 1994, consisted primarily of foreign taxes due on intercompany royalties paid to the Company during the first half of fiscal 1994, and a ratable portion of minimum state taxes that are expected to be incurred during fiscal year 1994.

Liquidity and Capital Resources

At March 31, 1994, the Company's cash and equivalents were \$32.6 million as compared to \$49.4 million at September 30, 1993. During the first half of fiscal 1994, the primary sources of cash were \$10.2 million provided by financing activities. Available cash flows during the first half of fiscal 1994 were used for \$23.9 million of capital expenditures for MR and thin-film disk head production capacities, and \$4.9 million for working capital requirements and other operating activities.

At March 31, 1994, total debt, including notes payable, amounted to \$67.8 million, an increase of \$10.6 million from the balance outstanding at September 30, 1993. At March 31, 1994, the Company had fully drawn down its unsecured Malaysian credit facility which has no stated maturity but is callable on demand from a bank in Malaysia where the Company has substantial manufacturing operations.

At March 31, 1994, the Company also had outstanding \$10.0 million under a revolving credit facility with a commercial bank. The credit facility provides for up to \$10.0

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million in aggregate commitments and is supported by a letter of credit issued for the account of HML, subject to reimbursement by the Company. This credit facility was recently amended to extend the maturity for one year and now expires on March 15, 1995. All other terms of the credit facility remains unchanged. At March 31, 1994, the Company also had outstanding a \$10.0 million note held by Conner Peripherals, Inc. ("Conner"), pursuant to a Note Purchase Agreement, which is secured by accounts receivable arising from sales to Conner and by certain capital equipment. The note, which matures in December 1994, is convertible at Conner's election at any time into shares of the Company's Common Stock at a conversion price of \$10.25 per share. Interest expense on the note was prepaid at issuance, resulting in net proceeds to the Company of approximately \$8.6 million.

Management believes that additional sources of capital will be required during the next twelve months in order to fund the production ramp-up of thin-film disk heads and to maintain the planned research and development and capital expenditure levels required for the MR and inductive thin-film disk head technologies in fiscal 1995. The Company plans approximately \$20.0 million in capital expenditures relating primarily to its thin-film and MR disk head products and technology in the second half of fiscal 1994, and an additional \$50.0 million in fiscal 1995. If the Company is unable to increase its sales and improve yields in executing customer orders for new drive programs in order to return to profitability during the second half of fiscal 1994, there could be a significant adverse impact on liquidity, which would accelerate the Company's requirement to obtain additional sources of capital. Management is in the process of exploring various financing alternatives, the success of which will be essential to the continued viability of the Company.

The Company's accounts receivable and inventory balances are heavily concentrated in a small number of customers. If any large customer of the Company became unable to pay its debts to the Company, liquidity would be

adversely impacted. Further, should all or any significant portion of the Malaysian Credit Facility become unavailable for any reason, the Company would need to pursue alternative financing sources.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. None

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Stockholders Meeting held on February 18, 1994, the Company's stockholders voted on the following matters:

1. Election of directors;
2. Approval of the Company's 1994 Employee Stock Option Plan;
3. Approval of the Company's 1994 Nonemployee Directors' Stock Option Plan; and
4. Ratification of selection of auditors.

The tabulation of votes provided by the Inspector of Elections was as follows:

<TABLE>
<CAPTION>

Proposal	Voting Tabulation		

1. Election of Directors			

Nominee	For	Withhold/Against	Broker Nonvotes
-----	---	-----	-----
<S>	<C>	<C>	<C>
Harold R. Frank	18,730,029	556,686	2,790,781
William R. Anderson	18,743,148	543,567	2,790,781
R.C. Mercure, Jr.	18,709,577	577,138	2,790,781
Herbert M. Dwight, Jr.	18,648,142	602,573	2,790,781
William E. Terry	18,648,142	603,741	2,790,781

</TABLE>

<TABLE>
<CAPTION>

	For	Against	Abstain	Broker Nonvotes
	---	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
2. Approval of 1994 Employee				

Stock Option Plan	13,026,067	958,766	392,201	4,900,558

3. Approval of 1994 Nonemployee				

Director's Stock Option Plan	12,506,884	1,316,446	534,875	4,919,287

4. Ratification of Selection of				

Auditors	19,007,766	174,087	104,087	2,791,556

</TABLE>

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<TABLE>
<CAPTION>

Exhibit	Description
Number	-----
-----	-----

<C>	<S>
2	Plan of acquisition, reorganization, arrangement, liquidation or succession. None.
4	Instruments defining the rights or security holders, including indentures.

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<TABLE>

<C>	<S>
	Rights Agreements, dated as of October 19, 1988, between Applied Magnetics Corporation and First Interstate Bank of California, as Rights Agent (1).
10	Material Contracts
10(x)	Applied Magnetics Corporation 1994 Employee Stock Option Plan
10(y)	Applied Magnetics Corporation 1994 Nonemployee Directors' Stock Option Plan
10(z)	Letter Agreement dated February 8, 1994 between the Company and O.M. Fundingsland former Executive Vice President of the Company
10(aa)	Letter Agreement dated January 12, 1994 between the Company and Louis W. Rayer, former Vice President of the Company
10(bb)	Retention Agreement dated January 2, 1994 between the Company and Raymond P. Le Blanc, Vice President, Secretary and General Counsel of the Company
11	Statement re computation of per share information.
15	Letter re unaudited interim financial information. None
18	Letter re change in accounting principles. None
19	Report Furnished to security holders. None
22	Published report re matters submitted to vote of security holders. None
24	Power of attorney. None
27	Financial Data Schedule. None
99	Additional exhibits. None
(1)	Filed as an exhibit to the Company's Current Report on Form 8-K dated October 19, 1988, and incorporated herein by reference.

</TABLE>

(b) Reports on Form 8-K. No reports on Form 8-K were filed by the Company during the quarter ended March 31, 1994.

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SIGNATURE

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

APPLIED MAGNETICS CORPORATION

/s/ William R. Anderson

William R. Anderson
Chief Executive Officer

Dated: May 13, 1994

/s/ Kathryn E. Gehrke

Kathryn E. Gehrke
Vice President and Chief Financial Officer
(Principal Financial Officer)

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PERSONAL AND CONFIDENTIAL

February 8, 1994

Mr. O.M. Fundingsland
12347 Las Palmas Drive
Santa Barbara, CA 93110

Dear Oz:

This letter confirms our mutual agreement regarding your retirement and the cessation of your employment relationship with Applied Magnetics Corporation (the "Company"). The termination of your employment relationship with the Company will take place as of January 6, 1995, or such earlier date, if any, as you or the Company elect to terminate your employment relationship with the Company (herein the "Effective Date"). This letter also confirms that, as of February 1, 1994, you have resigned as an Executive Vice President of the Company. Lastly, by this letter the Company confirms the terms of its offer to pay to you certain severance benefits and to provide to you certain other consideration in exchange for, among other things, your agreements (a) to release the Company from any and all liability, (b) to enter into a noncompetition agreement with the Company and (c) to continue to be available to the Company and its attorneys in connection with the Company Litigation (as defined below) and certain other matters.

1. Continuing Employment/Responsibilities. As of February 1, 1994, you are

relieved of your responsibilities and duties as Executive Vice President, as General Manager of the Customer, Inc. Business Unit of the Company, and in connection with your management and supervision of the operations of the Customer, Inc. Business Unit over which you had previously exercised management control and direction. During the period following February 1, 1994, through and including the Effective Date ("Employment Period"), you will continue to be employed by the Company as Executive Assistant to the Chief Executive Officer and will report to the Company's Chief Executive Officer, although you will be expected to work on temporary assignments under the direction of certain other officers or managers of the Company from time to time. The terms of your continuing employment responsibilities during the Employment Period are as follows:

EXHIBIT 10(z)

Mr. O.M. Fundingsland
February 8, 1994

1.1 Employee Status. Your employment by the Company during the Employment

Period shall be subject to the same policies, practices and procedures that applied to your status as an employee prior to the date hereof, including, but not limited to, (i) your continuing obligations to perform your duties and responsibilities diligently and in a professional and loyal manner in accordance with the Company's policies and your general and specific obligations as an employee, including, for example, duties concerning the preservation and protection of confidential information and refraining from participating in any conduct, activities, relationships or investments which conflict with the interests of the Company, or which compete with the business and operations of the Company, and (ii) the at-will nature of your employment relationship with the Company and the rights of both you and the Company to terminate this employment relationship with or without notice or cause; provided, however, that

you and the Company agree that, by accepting the Company's offer set forth below, in the manner and time described below, if your employment relationship is terminated: (1) by the Company at any time during the Employment Period, the Company will pay to you an amount equal to the number of weeks remaining from the date of such termination to January 6, 1995, multiplied by \$2,173.91, (2) by you at any time during the Employment Period, from and after such termination, you will forfeit, will not be entitled to receive and hereby release and discharge the Company from, any continuing obligation to pay to you any further or continuing weekly or other salary, and (3) no such termination shall relieve you or the Company of our respective rights and obligations under paragraph 4 hereof.

1.2 Leave of Absence. During the period from February 1, through February

13, 1994, you will be on paid leave of absence and will continue to be paid your current salary (\$4,134.61 per week) in accordance with the Company's usual and customary payroll practices.

1.3 Weekly Salary. During the period commencing February 14, 1994, and

expiring on the Effective Date, you will be paid a salary at the rate of \$2,173.91 per week in accordance with the Company's usual and customary payroll practices. During this period your employment will be that of a twenty (20) hour per week part-time employee with work schedule arrangements to be agreed between you and the Chief Executive Officer.

1.4 Paid Time Off Benefits. You will continue to accrue paid time off

("PTO") benefits during the Employment Period so long as you continue to be employed by the Company. On the Effective Date, the Company will pay to you all accrued and

unpaid/unused PTO benefits (payable at your salary rate in effect as of February 1, 1994).

1.5 Responsibilities. During the Employment Period you will be expected

to (i) provide assistance and advice regarding the Company's sales and marketing operations and activities and the promotion and sale of its products and services, (ii) participate, with the Company's employees, in selected meetings, conferences and entertainment functions with customers and customer representatives, as required by, or at the direction of, the Chief Executive Officer, (iii) continue, at the pleasure of the Company, to serve as a member of the boards of directors of Most, Inc., and IDEMA, and (iv) assist and cooperate with the Company, its business and financial representatives and its attorneys in connection with Company Litigation (as defined in paragraph 4.4 below).

2. Other Benefit/Compensation Plans. As of the Effective Date, all your rights

to participate in the Company's employee benefit plans (including, but not limited to Long Term Incentive, Stock Option, Cash Profit Sharing, Stock Purchase and other plans) will terminate, except as follows:

2.1 Group Medical Insurance. You will be entitled to continue

participation in the Company's group medical insurance plan under COBRA should you elect to do so, subject to the terms and conditions of the plan and payment by you of the applicable premiums. If you are interested in making such an election, please contact Human Resources. If you accept the Company's offer set forth in paragraph 4 hereof in the manner set forth therein, your rights to continue to participate in the Company's group medical insurance plan will be limited to the provisions of subparagraph 4.3 hereof.

2.2 1992 Stock Option Plan ("1992 Plan"). You will, for a period of

ninety (90) days following the Effective Date, be permitted to exercise the option installments which became exercisable on or before that date (to the extent you have not previously exercised such option installments) subject, however, to the terms and conditions of the 1992 Plan. All option installments which become exercisable under the 1992 Plan after the Effective Date will be forfeited.

2.3 1989 Amended and Restated Long-Term Incentive Plan (the "1989 Plan").

You have been issued, and there are now registered in your name, 9,275 shares for which restrictions have not been removed (the "Shares") of the Company's

\$.10 par value Common Stock as Restricted Stock under the terms of the 1989 Plan. By accepting the terms of the Company's offer as set forth below,

Mr. O.M. Fundingsland
February 8, 1994
Page 4

and in consideration of the payments made or to be made by the Company in accordance with the terms of such offer, you agree that, as of February 1, 1994, all of your right, title and interest in and to such Shares and all of your rights under the 1989 Plan are completely terminated and forfeited in all respects whatsoever, and you hereby release and discharge the Company from any and all liability, costs, damages or expenses, and any obligations the Company may have to you, under the 1989 Plan.

3. Confidentiality. You acknowledge that you have entered into a

Confidentiality and Assignment Agreement ("Confidentiality Agreement") with the Company and that, as an employee and officer of the Company, you are obliged to comply with the Company's policies and procedures with respect to confidential, proprietary and non-public information. You also acknowledge that during your employment with the Company, you have had, and may continue to have, access to and knowledge of sensitive, confidential and proprietary information and data including, without limitation, business plans and strategic information (such as, but not limited to plans, prospects and considerations regarding the Company's competition, competitive strengths and weaknesses, product pricing information, sensitive market strategies and plans, customer lists, names and contacts of key purchasing and management personnel of customers, gross margin and profit information, new ventures, resource planning, manufacturing, material and production cost information, techniques, and production processes, methods and development of vendor and customer relationships) identification of executives, managers and employees of the Company, including their specific skills, knowledge, compensation and other data (collectively "Confidential Information").

You agree that you will not, without the Company's prior written consent, at any time after the date of this letter, divulge, furnish or make accessible to anyone or use in any way, any of such Confidential Information in any manner which would injure the Company or interfere with its contractual relations. You further agree that you will refrain from any acts or omissions that would reduce the value of such Confidential Information to the Company, including, but not necessarily limited to, any conduct or activity which would cause disruption, damage or otherwise impair or interfere with the Company's business by interfering with or raiding its employees, soliciting employees to leave the Company to accept employment with, or provide personal services to, any other firm or Company, or by disrupting its relationships with its employees, customers, vendors, agents, representatives or otherwise.

Mr. O.M. Fundingsland

You and the Company agree to keep this agreement, including the contents thereof, in confidence and not to disclose the terms of this agreement to any third party without the written consent of the other. However, nothing contained herein shall prevent (a) either party from disclosing this agreement or the terms thereof to their respective accountants and attorneys and, in the case of the Company, to its employees and directors who have a need to know of the existence and contents hereof; (b) you from disclosing the terms of this agreement to your spouse, to banks or other financial institutions in connection with your obtaining loans or credit from such entities, or to prospective employers who have made bonafide employment offers to you, provided, however, that you shall first advise such banks, financial institutions or prospective employers of the confidential nature of this agreement; or (c) the Company from disclosing the terms and conditions of this agreement or from filing copies of this agreement with any state or federal regulatory agencies, including the Securities and Exchange Commission, if such disclosure or filing of copies is considered by the Company as necessary or appropriate to comply with federal or state securities laws or regulations or other legal or regulatory requirements.

4. Company Offer. Subject to your acceptance of this offer in the manner and

time provided in paragraph 4.8 hereof and in consideration of and reliance upon the release, representations and covenants provided by you to the Company as set forth below, the Company offers you the following:

4.1 Payments. The Company will deliver to you, on the eighth day

following its receipt from you of your acceptance of this letter in the manner described in paragraph 4.8 below (provided that (i) you have not theretofore revoked your acceptance in the manner described in paragraph 4.9 below and (ii) if such eighth day falls on a Saturday, Sunday or recognized holiday, then such delivery will be made on the immediately following business day), the following payments: (a) a severance payment of \$215,000 and (b) an additional payment of \$75,000 which you accept in exchange and consideration for the releases (set forth in Exhibit A) of any and all claims for emotional distress, personal injury or other tort damages.

4.2 Noncompetition. For a period of twelve (12) months following the

Effective Date, you agree that you shall not at any time, directly or indirectly, within (a) any of the counties of the state of California, (b) each of the states of California, Massachusetts, Colorado or New Hampshire, or (c) any of the countries of the United States, Belgium, Ireland, Korea,

Mr. O.M. Fundingsland

February 8, 1994

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Singapore, Japan or Malaysia, or parts thereof (collectively, the "Locations"):

(i) own, manage, operate, control, or be connected in any manner with the ownership, management, operation, or control of any person or entity that engages in a business competitive with the Company's present business;

(ii) interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between the Company or any of its subsidiaries and any actual or prospective customer, supplier, lessee or employee of the Company; or

(iii) solicit employment for or of employees of AMC or induce any employee to leave the employ of the Company.

Notwithstanding anything in this Paragraph 4 to the contrary, nothing in this agreement shall limit your right to hold and make investments not in excess of 1% of the outstanding securities of any corporation, the securities of which are or become listed on a nationally recognized securities exchange or traded in a nationally recognized over-the-counter market.

The covenants set forth in this paragraph shall be construed as a series of separate covenants, each consisting of covenants for each of the Locations. Except for such Location, all such separate covenants shall be deemed identical. It is the desire and intent of the parties hereto that the provisions of this agreement shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. If any particular provision or portion of this agreement shall be adjudicated to be invalid or unenforceable, such adjudication shall apply only with respect to the operation of the agreement in the particular jurisdiction in which such adjudication is made.

For and in consideration of the foregoing covenants, the Company agrees to pay to you, on the eighth day following its receipt, from you, of your acceptance of this letter (in the manner provided in paragraph 4.8 below) and, further provided, that you have not, theretofore revoked your acceptance (in the manner described in paragraph 4.9 below), the sum of \$215,000; provided,

however, that if such eighth day falls on a Saturday, Sunday or recognized
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holiday, then such payment will be made on the immediately following business day.

Mr. O.M. Fundingsland
February 8, 1994
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4.3 Group Medical Insurance. The Company will arrange for you and your

spouse to continue to participate in the Company's medical and dental plan for a period beginning on the day immediately following the Effective Date and continuing until you reach age 65; provided, however, that the total aggregate monthly premium expense of such participation (including both the employee and employer portion) is paid by you. Your continuance in this plan and the monthly premium expenses to be paid by you will be subject to such changes, including, but not limited to, coverage, coverage limits, deductibles, increases or decreases in premium payments, and the like, in the plan and in its administration as may, from time to time, be adopted by the Company and the Company makes no representations or warranties to you that any of these or other features of the plan (or any substitute or replacement plan that may be adopted by the Company) will remain in effect as they currently exist. The monthly premium expenses to be paid by you will be payable, in advance, on or before the 10th day of each month.

4.4 Litigation Support. We acknowledge that the Company is involved, and

may in the future be involved, in certain commercial and other disputes, controversies and lawsuits which relate to or involve your former, current or future duties and responsibilities as an employee or officer of the Company (herein "Company Litigation"). You agree to cooperate in all reasonable respects with the Company and its attorneys in connection with the Company's prosecution, defense or response of the Company Litigation including, for example, making yourself available to the Company's representatives and to the Company's attorneys for purposes of conferences, meetings, compilation and communication of records and facts, and appearing as a witness or prospective witness in connection with deposition or other testimony that may be required in connection with such defense. It is our expectation that you will do this on a basis which will be at such times and places that are mutually convenient to you, the Company, the Company's attorneys and plaintiff's attorneys. The Company will reimburse you for all travel and other reasonable out-of-pocket expenses relating to your attendance at conferences, meetings, depositions and the like relating to the Company Litigation. Travel and lodging arrangements will be consistent with the Company's then current practices regarding selection and class of travel and accommodations and are to be made through the Company's travel department. In connection with your involvement in the defense of the Company Litigation you also understand and agree that the matters that you discuss with the Company and its attorneys are likely to be of a confidential and privileged nature and you agree to comply with all instructions and advice provided to you by the Company and its attorneys with respect to the confidential and privileged nature

Mr. O.M. Fundingsland
February 8, 1994
Page 8

of such communications. You will not be entitled to receive from the Company any additional compensation or payment in connection with the litigation support to be provided by you pursuant to this agreement so long as the Company Litigation for which your services are required or requested involve matters or actions in which (a) you are named in a Complaint, Cross-Complaint or counter claim as a defendant, together with the Company, any of its subsidiaries, or any officers, directors or employees of the Company or such subsidiaries, (b) allegations, claims or charges have been made or threatened against you and/or the Company (or any of its subsidiaries) which relate to or involve your former, current or future duties as an employee or officer of the Company, or (c) you are or may be either (i) entitled to indemnification from the Company pursuant to the Bylaws or the Delaware General Corporations Law or (ii) entitled to coverage under one or more directors' and officers' or other insurance policies maintained at any time by the Company (herein, collectively, "Interested Litigation"). If the Company Litigation as to which you provide support and assistance involves matters or disputes other than Interested Litigation, you will be compensated at an hourly rate of \$50.00 for each hour of service provided by you at the request of the Company to the extent, and only to the extent, that such service exceeds twenty (20) hours in any calendar quarter.

4.5 Release. You acknowledge and agree that it is an express condition

precedent to the Company's obligations as set forth in this offer that you execute, and by accepting this letter in the manner provided herein you hereby agree to execute, a release in favor of the Company in the form of that attached as Exhibit A.

4.6 Use of Company Computer. The Company will provide to you, at its

expense, a personal computer system ("PC Equipment") for your use at your personal residence in Santa Barbara, California, for a period of twelve (12) months following the Effective Date. In addition the Company will provide installation services with respect to the PC Equipment. This PC Equipment will at all times remain the property of the Company and you agree to return it to the Company at the expiration of such twelve (12) month period or, alternatively, at the Company's reasonable request, to allow the Company to enter upon your premises for the purposes of recovering the PC Equipment at a reasonable time and upon prior notice to you. The Company will not be responsible for providing to you or for paying the expense of supplies, maintenance, paper, or data transmission/communication hookup charges or monthly services relating to your continued use and operation of the PC Equipment.

Mr. O.M. Fundingsland
February 8, 1994
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4.7 General Provisions

A. Governing Law/Entire Agreement. This agreement, which is made

under and shall be governed by the laws of the state of California, contains the entire agreement of the parties relating to the subject matter hereof and supersedes all prior agreements and understanding with respect to such subject matter, and there are no other agreements, representations, or warranties relating to the subject matter of this agreement that are not set forth herein.

B. Successors and Assigns. This agreement shall extend to and be

binding upon you and your legal representatives, heirs, beneficiaries and distributee, and no amendment, waiver or modification of this agreement, or any of the terms or conditions hereof, shall be deemed effective unless made in writing and signed by you and an officer of the Company.

C. Representation by Counsel. The Company has not furnished legal

representation to you in connection with this agreement but has been represented by its counsel. The Company and its counsel have advised you that you may seek independent counsel in connection with this agreement and you have been afforded the opportunity to do so prior to your execution of this agreement.

D. Resignations. You agree to execute and deliver such letters and

other documents as the Company may reasonably request confirming your resignation, as of the Effective Date or such earlier date as may be requested by the Company, as an officer or director of the Company or any of the Company's directly or indirectly owned subsidiaries.

E. Payroll Withholdings, etc. Except for the payment described in

subparagraph 4.1(b) hereof, all amounts payable to you hereunder shall be paid in accordance with the Company's normal payroll practices and shall be subject to usual and customary payroll deductions for federal and state withholding taxes, and the like.

F. Disclaimer. The Company makes and has made no representations or

warranties regarding the federal or state personal income tax treatment of any payments made by it to you hereunder and acknowledges and agrees that you will be solely responsible for reporting any and all income and payments received hereunder and for all taxes and assessments due or payable by you in connection therewith.

Mr. O.M. Fundingsland
February 8, 1994
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4.8 Acceptance, Time to Execute and Return Agreement and Release. All of

the Company's duties and obligations, and your rights, hereunder are subject to the express condition precedent that you accept this offer in the manner and time provided in this paragraph. You may have 21 days from the date of this letter (through and including March 1, 1994) to consider this offer and may accept this offer after the expiration of that period but prior to 5:00 p.m., March 8, 1994, at which time the Company's offer will automatically expire and terminate unless it has been accepted by you in the manner described herein.

To accept this offer, you must date and sign the enclosed copy of this letter and the Release, without making any changes or modifications to such documents, and return both to the Company, Attention: Raymond P. Le Blanc, on
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or after March 2, 1994, but not later than 5:00 p.m. March 8, 1994.
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4.9 Revocation of Acceptance. After you have accepted this offer in the

manner and within the time period described above, you may revoke your acceptance by giving written notice of such revocation to the Company, Attention: Raymond P. Le Blanc, not later than seven (7) days following your execution and acceptance of this letter. Upon such revocation the Company will be released and discharged of its obligations under this paragraph 5. If you have executed and accepted this offer but do not revoke your acceptance within this seven (7) day period, this agreement shall thereupon become effective.

4.10 Resignations. You agree to execute and deliver such letters and other

documents as the Company may reasonably request confirming your resignation, as of the date hereof or such other date(s) as may reasonably be requested by the Company, as an officer or director of the Company or any of the Company's directly or indirectly owned subsidiaries.

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Mr. O.M. Fundingsland
February 8, 1994

I am pleased that we were able to conclude this in a professional and cooperative manner. If the provisions of this letter are acceptable, please sign and return the enclosed copy and the attached Release in accordance with paragraph 4.8 above.

Yours very truly,

APPLIED MAGNETICS CORPORATION

William R. Anderson
Chief Executive Officer

Acknowledged and accepted this
_____ day of March, 1994.

O.M. Fundingsland

EXHIBIT A

Release

March __, 1994

To: Applied Magnetics Corporation ("Company")

Gentlemen:

Reference is made to that certain Letter Agreement ("Agreement") dated February 8, 1994, between me and the Company into which this Release is incorporated by reference. I acknowledge and agree that the Agreement has been entered into as a full and complete settlement, release and discharge of any and all claims that I may have against the Company or any of its agents, officers, directors, employees, stockholders, subsidiaries and affiliates (collectively the "AMC Group") for fault, wrongdoing or liability of whatsoever nature arising from or in connection with my employment relationship with the Company or any member of the AMC Group or the termination of that relationship. Neither the Agreement

nor any of the covenants, terms or conditions thereof shall be deemed an admission by the Company or any member of the AMC Group in connection with or otherwise arising from my employment relationship with the Company or any members of the AMC Group or the termination of such employment relationship. Subject to the provisions set forth in the Agreement, I hereby fully release the Company and each member of the AMC Group and their respective agents, officers, directors, servants, stockholders, employees, representative, assigns and successors from all right, claims, demand, causes, liabilities and actions of any nature whatsoever, known or unknown, fixed or contingent, suspected or unsuspected, which I now have, hold or claim to own, arising out of, or in any way connected with or relating to my employment (or its termination) with the Company or any member of the AMC Group including but not necessarily limited to, wrongful discharge, unjust dismissal, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, impairment of economic ability, breach of implied covenants of good faith and fair dealing, emotional distress, personal injury or other tort, provided however that nothing contained herein shall be construed as a release or discharge of: (a) any rights to indemnification under and subject to the provisions of Article VII of the By-laws of the Company, a copy of which has been furnished to me, (b) any rights under California Labor Code Section 2802, or (c) any rights under the Company's Directors' and Officers' Insurance Policy and Company Reimbursement Policy No. 440-99-28 with National Union Fire Insurance Company, subject, however, to the terms, conditions, limitations and exclusions set forth in such policy.

Release - O.M. Fundingsland
March __, 1994
Page 2

You acknowledge and agree that this Release constitutes release and discharge of known and unknown claims and that you hereby expressly waive the benefits of California Civil Code (S)1542 which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

(Not to be signed)

O.M. Fundingsland

Release

March __, 1994

To: Applied Magnetics Corporation ("AMC")

Gentlemen:

Reference is made to that certain Letter Agreement ("Agreement") dated February 8, 1994, between me and the Company into which this Release is incorporated by reference. I acknowledge and agree that the Agreement has been entered into as a full and complete settlement, release and discharge of any and all claims that I may have against the Company or any of its agents, officers, directors, employees, stockholders, subsidiaries and affiliates (collectively the "AMC Group") for fault, wrongdoing or liability of whatsoever nature arising from or in connection with my employment relationship with the Company or any member of the AMC Group or the termination of that relationship. Neither the Agreement nor any of the covenants, terms or conditions thereof shall be deemed an admission by the Company or any member of the AMC Group in connection with or otherwise arising from my employment relationship with the Company or any members of the AMC Group or the termination of such employment relationship. Subject to the provisions set forth in the Agreement, I hereby fully release the Company and each member of the AMC Group and their respective agents, officers, directors, servants, stockholders, employees, representative, assigns and successors from all right, claims, demand, causes, liabilities and actions of any nature whatsoever, known or unknown, fixed or contingent, suspected or unsuspected, which I now have, hold or claim to own, arising out of, or in any way connected with or relating to my employment (or its termination) with the Company or any member of the AMC Group including but not necessarily limited to, wrongful discharge, unjust dismissal, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, impairment of economic ability, breach of implied covenants of good faith and fair dealing, emotional distress, personal injury or other tort, provided however that nothing contained herein shall be construed as a release or discharge of: (a) any rights to indemnification under and subject to the provisions of Article VII of the By-laws of the Company, a copy of which has been furnished to me, (b) any rights under California Labor Code Section 2802, or (c) any rights under the Company's Directors' and Officers' Insurance Policy and Company Reimbursement Policy No. 440-99-28 with National Union Fire Insurance Company, subject, however, to the terms, conditions, limitations and exclusions set forth in such policy.

Release - O.M. Fundingsland

March __, 1994

Page 2

You acknowledge and agree that this Release constitutes release and discharge of known and unknown claims and that you hereby expressly waive the benefits of California Civil Code (S)1542 which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

O.M. Fundingsland

PERSONAL AND CONFIDENTIAL

January 12, 1994

Mr. Louis W. Rayer
1119 North Patterson
Santa Barbara, California 93111

Dear Lou:

This letter confirms our mutual agreement regarding the termination of your employment relationships with Applied Magnetics Corporation (the "Company") and with certain of its subsidiaries, namely Applied Magnetics Malaysia, Sdn. Bhd. ("AMM") and Applied Magnetics Singapore Pte. Ltd. ("AMS") (the Company and such subsidiaries being herein referred to as the "AMC Group"). The termination of these employment relationships will take place as of January 28, 1994 (herein the "Effective Date"). This letter also confirms that, as of the date hereof, you are removed as an officer of the Company, of AMM and of AMS. Lastly, by this letter the Company confirms the terms of its offer to pay to you certain severance benefits and to provide to you certain other consideration in exchange for, among other things, your agreement to release the AMC Group from any and all liability and, further, to continue to be available to the Company and its attorneys in connection with the Securities Litigation (as defined below).

1. Leave of Absence/Responsibilities. Except as set forth in this paragraph

and in paragraph 4 hereof, as of the date hereof, you are relieved of your responsibilities and duties as Vice President, Southeast Asian Operations and in connection with your management and supervision of the operations of AMM and AMS over which you have previously exercised management control and direction. During the period following the date hereof, through and including the Effective Date, you will be on paid leave of absence and will be available on an occasional basis, to provide personal services consisting of advice and assistance relating to the transition of your former duties.

EXHIBIT 10 (aa)

Louis Rayer
January 12, 1994
Page 2

2. Current Salary/Paid Time Off ("PTO"). The Company will continue to pay

you your current salary (\$2,759.62 per week), plus cost of living adjustment at the rate currently in effect (25%), up to the Effective Date in accordance with its current payroll practices. On the Effective Date, the Company will pay to you all accrued and unpaid/unused PTO benefits.

3. Other Benefit/Compensation Plans. As of the Effective Date, all your

rights to participate in the Company's employee benefit plans (including, but not limited to Long Term Incentive, Stock Option, Cash Profit Sharing, Stock Purchase and other plans) will terminate, except as follows:

3.1 Group Medical Insurance. You will be entitled to continue

participation in the Company's group medical insurance plan under COBRA should you elect to do so, subject to the terms and conditions of the plan and payment by you of the applicable premiums. If you are interested in making such an election, please contact Human Resources.

3.2 1992 Stock Option Plan ("1992 Plan"). You will, for a period of

ninety (90) days following the Effective Date, be permitted to exercise the option installments which became exercisable on or before that date (to the extent you have not previously exercised such option installments) subject, however, to the terms and conditions of the 1992 Plan. All option installments which become exercisable under the 1992 Plan after the Effective Date will be forfeited.

3.3 Relocation. You will be expected to relocate your residence to the

Santa Barbara area from the residences you have maintained in Malaysia and Singapore and the Company or a member of the AMC Group will at its expense pack and ship to your residence in Santa Barbara County, via air cargo, all of your personal effects that you have maintained at the residence. You are expected to make arrangements to have this performed by the shipping and traffic departments at AMM and AMS prior to the Effective Date.

3.4 Income Taxes. The Company will at its expense obtain professional

accounting services and make such services available to you to prepare and file income tax returns in Malaysia, Singapore and the U.S. with respect to the income paid to you in each jurisdiction from the Company, AMM and AMS, as the case may be, for the calendar year 1993 and for the partial calendar year

1994 and, in addition, will reimburse you for any tax liability incurred and paid by you in AMM and AMS for these periods. Any refunds due with respect to taxes paid by the Company on your behalf in prior years in AMM or AMS shall, at the Company's election, be returned to the Company or credited and offset against any reimbursement obligations it may have to you under this paragraph 3.4.

4. Confidentiality. You acknowledge that you have entered into a

Confidentiality and Assignment Agreement ("Confidentiality Agreement") with the Company and that, as an employee and officer of the Company, you are obliged to comply with the Company's policies and procedures with respect to confidential, proprietary and non-public information. You also acknowledge that during the term of your employment with the Company, you have had access to and knowledge of sensitive, confidential and proprietary information and data including, without limitation, business plans and strategic information (such as, but not limited to plans, prospects and considerations regarding new ventures, resource planning, manufacturing, material and production cost information, techniques, and production processes, methods and development of vendor and customer relationships) identification of executives, managers and employees of the Company, including their specific skills, knowledge, compensation and other data (collectively "Confidential Information").

You agree that you will not, without the Company's prior written consent, at any time after the date of this letter, divulge, furnish or make accessible to anyone or use in any way, any of such Confidential Information in any manner which would injure the Company or interfere with its contractual relations. You further agree that you will refrain from any acts or omissions that would reduce the value of such Confidential Information to the Company, including, but not necessarily limited to, any conduct or activity which would cause disruption, damage or otherwise impair or interfere with the Company's business by interfering with or raiding its employees, soliciting employees to leave the Company to accept employment with, or provide personal services to, any other firm or Company, or by disrupting its relationships with its employees, customers, vendors, agents, representatives or otherwise.

You and the Company agree to keep this agreement, including the existence and contents hereof, in confidence and not to disclose the same or any of its terms to any third party without the written consent of the other. However, nothing contained herein shall prevent (a) either party from disclosing this agreement or the terms thereof to their respective accountants and attorneys and, in the case of the Company, to its employees and directors who have a need to know of the existence and contents hereof; (b) you from disclosing the terms of this agreement to your spouse or to banks or other financial institutions in connection with your obtaining loans or credit from such entities provided that you shall first advise those firms of the confidential nature of this agreement; or (c) the Company from disclosing the terms and conditions of this agreement or from filing copies of this agreement with any state or federal regulatory agencies, including the Securities and Exchange Commission, if such disclosure or filing of copies is considered by the Company as necessary or appropriate to comply with federal or state securities laws or regulations or other legal or regulatory requirements.

5. Company Offer. Subject to your acceptance of this offer in the manner and -----
time provided in paragraph 5 hereof and in exchange for and reliance upon the representations and covenants provided by you to the Company as set forth below, the Company offers you the following:

5.1 Severance Payment. The Company will pay to you, within 15 days -----
following the Company's receipt of your acceptance of this letter in the manner described in paragraph 5.9 below (and provided that you have not prior to the expiration of such 15 day period, revoked your acceptance in the manner described in paragraph 5.10 below) the sum of \$150,000.00.

5.2 Use of Company Computer. The Company will provide to you, at its -----
expense, a personal computer, facsimile machine and ink jet printer (collectively "Office Equipment") for your use at your personal residence in Santa Barbara, California for a period of 12 months following the Effective Date. In addition the Company will provide installation services or reimburse you for installation services purchased by you with respect to the installation of such Office Equipment in your residence provided however that the Company's obligation to reimburse you with respect to such expenses shall not exceed in the aggregate the sum of \$1,000.00. This Office Equipment will at all times remain the property of the Company and you agree to return the Office Equipment to the Company at the expiration of such 12 month

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January 12, 1994
Page 5

period or, alternatively at the Company's reasonable request, to allow the Company to enter upon your premises for the purposes of recovering the Office Equipment at a reasonable time and upon prior notice to you. The Company will not be responsible for providing to you or for paying the expense of supplies, maintenance, paper, toner or data transmission/communication hookup charges or monthly services relating to your continued use and operation of the Office Equipment.

5.3 Group Medical Premium Payments. The Company will reimburse you for -----
the applicable premiums (both employer and employee portions) paid by you for the continuation of your group medical coverage under COBRA for a period up to 12 months following the Effective Date.

5.4 Out-Placement Assistance. During the period following the date hereof -----
and for a period of up to six (6) months following the Effective Date, the Company will provide to you, at its expense, out-placement consulting services, advice and assistance through the firm, Drake, Beam, Morin in connection with your efforts to obtain employment elsewhere. Should you start employment prior to the Effective Date, such employment will not affect your continuing status as an employee of the Company during the period from the date of this letter through and including the Effective Date provided that you have not otherwise breached any of your obligations and duties to the Company. Should you start employment elsewhere following the Effective Date and prior to the expiration of six (6) months following such date, the Company's obligations to continue to provide out-placement consulting and advisory services and assistance will cease and terminate.

5.5 Securities Litigation. You are identified as a co-defendant in one or -----
more of the lawsuits listed in Schedule 1 attached to this letter and may be identified as a co-defendant in a consolidated complaint which is expected to be filed in the U.S. District Court for the Central District of California at some time during the next 60 days based on allegations which are the same or substantially similar to those which are set forth in the complaints listed in Schedule 1 (herein the "Securities Litigation"). We acknowledge that the Company is presently obligated to indemnify, and is indemnifying, you in connection with the Securities Litigation and the Company agrees to continue to do so to the maximum extent permitted under the laws of the State of Delaware and the Company's by-laws notwithstanding the termination of your employment in accordance with the terms of this letter. Following the Effective Date you agree to cooperate

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in all reasonable respects with the Company and its attorneys in connection with the Company's defense of the Securities Litigation including, for example, making yourself available to the Company's representatives and to the Company's attorneys for purposes of conferences, meetings, compilation and communication of records and facts, and appearing as a witness or prospective witness in connection with deposition or other testimony that may be required in connection with such defense. It is our expectation that you will do this on a basis which will be at such times and places that are mutually convenient to you, the Company, the Company's attorneys and plaintiff's attorneys. The Company will reimburse you for all travel and other reasonable out-of-pocket expenses relating to your attendance at conferences, meetings, depositions and the like relating to the Securities Litigation. In connection with your involvement in the defense of the Securities Litigation you also understand and agree that the matters that you discuss with the Company and its attorneys are likely to be of a confidential and privileged nature and you agree to comply with all instructions and advice provided to you by the Company and its attorneys with respect to the confidential and secret nature of such communications.

5.6 Transition Matters. You agree to provide to the Company and its

attorneys reasonable assistance at mutually agreeable times and places, during the 24 months following the Effective Date in connection with possible disputes, lawsuits or other controversies that may arise in connection with present or former employees or managers at AMM and AMS.

5.7 Release. You acknowledge and agree that as an express condition

precedent to the Company's obligations as set forth in this offer that you execute, and by accepting this letter in the manner provided herein you hereby agree to execute, a release in favor of the Company in the form of that attached as Exhibit A.

5.8 General Provisions

A. Governing Law/Entire Agreement. This agreement, which is made

under and shall be governed by the laws of the state of California, contains the entire agreement of the parties relating to the subject matter hereof and supersedes all prior agreements and understanding with respect to such subject matter, and there are no other agreements, representations, or warranties relating to the subject matter of this agreement that are not set forth herein.

B. Successors and Assigns. This agreement shall extend to and be

binding upon you and your legal representatives, heirs, beneficiaries and distributee, and no amendment, waiver or modification of this agreement, or any of the terms or conditions

hereof, shall be deemed effective unless made in writing and signed by you and an officer of the Company.

C. Representation by Counsel. The Company has not furnished legal

representation to you in connection with this agreement but has been represented by its counsel. The Company and its counsel have advised you that you may seek independent counsel in connection with this agreement and you have been afforded the opportunity to do so prior to your execution of this agreement.

D. Resignations. You agree to execute and deliver such letters and

other documents as the Company may reasonably request confirming your resignation, as of the Effective Date or such earlier date as may be requested by the Company, as an officer or director of the Company or any of the Company's directly or indirectly owned subsidiaries.

E. Payroll Withholdings, etc.. All amounts payable to you hereunder

shall be paid in accordance with the Company's normal payroll practices and shall be subject to usual and customary pay-roll deductions for federal and state withholding taxes, and the like.

5.9 Acceptance, Time to Execute and Return Agreement and Release. All of

the Company's duties and obligations, and your rights, hereunder are subject to the express condition precedent that you accept this offer in the manner and time provided in this paragraph. You may have 21 days from the date of this letter (until February 2, 1994) to consider this offer and may accept this offer after the expiration of that period but prior to 5:00 p.m., February 9, 1994, at which time this agreement will expire and terminate unless it has been accepted by you in the manner described herein.

To accept this agreement, you must date and sign the enclosed copy of this letter and the Release, without making any changes or modifications to such documents, and return both to the Company, Attention: David Swanson or Raymond P. Le Blanc, on or after February 2, 1994 but not later than 5:00 p.m. February 9, 1994.

5.10 Revocation of Acceptance. After you have accepted this offer in the

manner and within the time period described above, you may revoke your acceptance by giving written notice of such revocation to the Company not later than seven (7) days following your execution and acceptance of this

letter. Upon such revocation the Company will be released and discharged of its

Louis Rayer
January 12, 1994
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obligations under this paragraph 5 except to the extent of and subject to its indemnification obligations under paragraph 5.5. If you have executed and accepted this offer but do not revoke your acceptance within this seven (7) day period, this agreement shall thereupon become effective.

I am pleased that we were able to conclude this in a professional and cooperative manner. If the provisions of this letter are acceptable, please sign and return the enclosed copy and the attached Release in accordance with paragraph 5.9 above.

Yours very truly,

APPLIED MAGNETICS CORPORATION

Richard D. Balanson
President and Chief Operating Officer

APPLIED MAGNETICS MALAYSIA, Sdn. Bhd.

William R. Anderson
Director

APPLIED MAGNETICS SINGAPORE, Pte. Ltd.

William R. Anderson
Director

Acknowledged and accepted this ____ day of February, 1994.

Louis W. Rayer

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Louis Rayer
January 12, 1994
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EXHIBIT A

February ____, 1994

To: Applied Magnetics Corporation ("AMC")

Gentlemen:

Reference is made to that certain Letter Agreement dated January 12, 1994, between me, AMC and AMC's subsidiaries (collectively the "AMC Group") to which this Release is incorporated by reference ("Agreement"). I acknowledge and agree that the Agreement has been entered into as a full and complete settlement, release and discharge of any and all claims that I may have against AMC any member of the AMC Group for fault, wrongdoing or liability of whatsoever nature arising from or in connection with my employment relationship with AMC or any member of the AMC Group or the termination of that relationship. Neither the Agreement nor any of the covenants, terms or conditions thereof shall be deemed an admission by AMC or any member of the AMC Group in connection with or otherwise arising from my employment relationship with AMC or any members of the AMC Group or the termination of such employment relationship. Subject to the provisions set forth in the Agreement, I hereby fully release AMC and each member of the AMC Group and their respective agents, officers, directors, servants, stockholders, employees, representative, assigns and successors from all right, claims, demand, causes, liabilities and actions of any nature whatsoever, known or unknown, fixed or contingent, suspected or unsuspected, which I now have, hold or claim to own, arising out of, or in any way connected with or relating to my employment (or its termination) with AMC or any member of the AMC Group including but not necessarily limited to, wrongful discharge, unjust dismissal, the Age Discrimination in Employment Act (and similar California laws), impairment of economic ability, breach of implied covenants of good faith and fair dealing, or other tort, provided however that nothing contained herein shall be construed as a release or discharge of: (a) any rights to indemnification under and subject to the provisions of Article VII of the By-laws of AMC, a copy of which has been furnished to me, or (b) any rights of the undersigned under AMC's Directors' and Officers' Insurance Policy and Company Reimbursement Policy No. 440-99-28 with National Union Fire Insurance Company subject, however, to the terms, conditions, limitation and exclusions set forth in such policy.

(Not to be signed)

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Louis Rayer

Release

- - - - -

February ____, 1994

To: Applied Magnetics Corporation ("AMC")

Gentlemen:

Reference is made to that certain Letter of Agreement dated January 12, 1994, between me and ("AMC") to which this Release is incorporated by reference ("Agreement"). I acknowledge and agree that the Agreement has been entered into as a full and complete settlement, release and discharge of any and all claims that I may have against AMC for fault, wrongdoing or liability of whatsoever nature arising from or in connection with my employment relationship with AMC or the termination of that relationship. Neither the Agreement nor any of the covenants, terms or conditions here of shall be deemed an admission by AMC in connection with any such fault, wrongdoing or liability or otherwise arising from on in connection with my employment relationship with AMC or the termination of such employment relationship. Subject to the provisions set forth in the Agreement, I hereby fully release AMC and its agents, officers, directors, servants, stockholders, employees, representative, assigns and successors from all right, claims, demand, causes, liabilities and actions of any nature whatsoever, known or unknown, fixed or contingent, suspected or unsuspected, which I now have, hold or claim to own, arising out of, or in any way connected with or relating to my employment (or its termination) with AMC including but not necessarily limited to, wrongful discharge, unjust dismissal, the Age Discrimination in Employment Act (and similar California laws), impairment of economic ability, breach of implied covenants of good faith and fair dealing, or other tort, provided however that nothing contained herein shall be construed as a release or discharge of: (a) any rights to indemnification under and subject to the provision of Article VII of the By-laws of AMC, a copy of which has been furnished to me, (b) any rights of the undersigned under California Labor Code Section 2802 or (c) and rights of the undersigned under AMC's Directors' and Officers' Insurance Policy and Company Reimbursement Policy No. 440-99-28 with National Union Fire Insurance Company subject, however, to the terms, conditions, limitations and exclusions set forth in such policy.

Louis Rayer

SCHEDULE 1

<TABLE>
<CAPTION>

APPLIED MAGNETICS SECURITIES LITIGATION

1993

- <S> <C>
- (1) Levin v. Applied Magnetics Corp., et al., CV-93-6195

DT (JRx);
- (2) Gaines v. Applied Magnetics Corp., et al., CV-93-6207

DT (JRx);
- (3) Lloyd v. Applied Magnetics Corp., et al., CV-93-6224

DT (JRx);
- (4) Struth v. Applied Magnetics Corp., et al., CV-93-6292

DT (JRx);
- (5) Dennis v. Applied Magnetics Corp., et al., CV-93-6482

DT (JRx);
- (6) Stein v. Applied Magnetics Corp., et al., CV-93-6520

DT (JRx);
- (7) Goldman v. Applied Magnetics Corp., et al., CV-93-6557

DT (JRx);
- (8) Rocks v. Applied Magnetics Corp., et al., CV-93-6901

LGB (JRX).

</TABLE>

RETENTION AGREEMENT

THIS RETENTION AGREEMENT ("Agreement"), effective as of January 2, 1994, is entered into between Applied Magnetics Corporation ("AMC") a Delaware corporation ("Company") and Raymond P. Le Blanc ("Executive").

RECITALS

Executive is currently employed by the Company as its Vice President, Secretary and General Counsel.

The Company desires to continue to retain the services of Executive in this capacity or in such other capacity, as provided herein, as the Executive and the Company may, hereafter, agree in writing and the Executive desires to remain in the employ of the Company and to continue performing services for the Company, all in accordance with the terms of this Agreement.

NOW, THEREFORE in consideration of the mutual promises contained here, Company and Executive agree as follows:

1. DEFINITIONS. Capitalized terms not otherwise defined herein shall have

the following meanings:

1.1 "Person" - shall mean any individual, corporation, partnership, association, firm or entity whether or not incorporated.

1.2 "Affiliate" - shall mean, in relation to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such Person. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

1.3 "Retention Term" - the two year period commencing on the date of this Agreement.

1.4 "Board" - the Board of Directors of the Company.

1.5 "Committee" - the Compensation Committee of the Board, or if there is no committee with such name, the committee of the Board responsible for review and recommendations of executive compensation.

1.6 "Disability" - the inability, as determined by the Committee based on the advice of a licensed physician, of Executive to perform the usual duties of his employment for an extended period by reason of any medically determinable physical or mental

EXHIBIT 10 (bb)

impairment or illness which can reasonably be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than six (6) months.

1.7 "Exchange Act" - the Securities Exchange Act of 1934.

1.8 "Common Stock" - the Company's \$.10 par value common stock.

1.9 "termination for Cause" - any termination of Executive's employment by the Company, as a result of or in connection with Executive's

(a) engaging in any business that is competitive with that of the Company while employed by the Company or any subsidiary; (b) committing any material act of dishonesty, including but not necessarily limited to theft or embezzlement of funds or property of the Company, or perpetrating a fraud on or affecting the Company, or (c) a willful act by the Executive which constitutes gross misconduct and results in a material adverse affect on the Company.

1.10 "Code" - the Internal Revenue Code of 1986, as amended.

1.11 "Involuntary Termination" - shall mean the happening of any of the following: (i) a termination of the Executive's employment by the Company other than a termination for Cause; (ii) a failure by the Company to elect or reelect or to appoint or reappoint the Executive to the office of Vice President, Secretary and General Counsel or other change which results in a Diminution in Duties; or (iii) a unilateral decision by the Company to reassign the Executive to another geographic location more than twenty-five (25) miles from the Executive's current principal place of residence; (iv) a reduction in Base Compensation of the Executive as in effect immediately prior to such reduction; (v) a material reduction by the Company in the kind or level of employee benefits to which the Executive is entitled immediately prior to such reduction, unless such reduction is part of a general reduction applicable to all employees implemented by the Company in good faith and for legitimate business reasons; (vi) death or Disability of the Executive; or (vii) failure of the Company to comply, materially, with the provisions of Section 4 of this Agreement provided, however, that the Executive's failure to object in writing to a change as listed in subsections (ii), (iii) and (iv) within the later of 90 days after (x) the expiration of the Retention Term or (y) any such change shall constitute a waiver of such change being deemed an Involuntary Termination.

1.12 "Base Compensation" shall have the meaning set forth in Section 4.1.

1.13 "Diminution in Duties" shall mean any change or reduction of the Executive's present functions, duties or responsibilities which results in a significant lessening of

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Executive's duties or responsibilities or would cause the Executive's position with the Company to become of less dignity, responsibility, importance or scope including, but not limited to, any change whereby (i) Executive no longer reports to (x) any one of the Chief Executive Officer, the Chairman or Vice Chairman of the Company, or (y) following a Change in Control (as defined in the Company's 1992 Stock Option Plan) of the Company, to the person who serves as the principal executive officer of the Company, (ii) Executive no longer serves as the chief legal officer of the Company or in a capacity in which he provides legal counsel and guidance to the Company, its Board and senior executive officers; or (iii) Executive no longer actively participates in the analysis, preparation and formulation of such corporate planning matters as major acquisitions and divestitures, corporate finance and capital formation (including, but not limited to, public and private issuance of debt and equity securities) and other matters in which chief legal officers of publicly traded corporations are customarily involved.

1.14 "Securities Litigation" - Those certain class action lawsuits which have been filed or may hereafter be filed in the United States District Court for the Central District of California by various persons who allegedly purchased the Company's Stock during the several months preceding October 1, 1993, naming the Company, the Executive and certain other officers, and a former officer, as defendants and alleging that such defendants violated federal and state securities laws including the Insider Trading Act.

2. EMPLOYMENT/LEGAL REPRESENTATION. The Company agrees to employ Executive to render, and the Executive hereby agrees to perform, the services specified herein upon the terms and conditions and for the compensation herein

provided, and Executive will be so employed and will render such services, provided however, that unless otherwise agreed in writing between the Company and Executive, upon Executive's voluntary or Involuntary Termination during the Retention Term, the Company (i) shall, in the case of a Voluntary Termination, have the option to retain, and (ii) agrees, in the case of an Involuntary Termination, to retain Executive as legal counsel to the Company and Executive agrees to provide legal services to the Company, all in accordance with Section 10 hereof.

3. SERVICES TO BE RENDERED DURING EMPLOYMENT. Subject to the terms and conditions of this Agreement, Executive will be employed as Vice President, Secretary and General Counsel of the Company at its principal office, and he will promote the business affairs and business interests of the Company faithfully and diligently. Subject to the provisions of Section 1.13 hereof, Executive further agrees to serve in such other executive positions of the Company or as an officer or director of one or more Affiliates or subsidiaries of the Company or as a member of one or more committees (including

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committees of the Board or administrative or similar committees appointed by the Board with the Company or one or more Affiliates or Subsidiaries of the Company) as the Company or the Board may, from time to time, direct or to which he may be elected from time-to-time. Executive will perform the usual and customary duties of Vice President, Secretary and General Counsel and of any additional positions he may hold, and he is granted the usual and customary power and authority associated with such office, subject to the respective provisions of the Certificate of Incorporation and Bylaws of the Company. The Executive shall devote his full business efforts and time to the Company and its subsidiaries. The foregoing, however, shall not preclude the Executive from engaging in appropriate professional, civic, charitable or religious activities or from devoting a reasonable amount of time to private investments as long as such activities and service do not unreasonably interfere or conflict with his responsibilities to the Company.

4. SALARY; BENEFITS.

4.1 Salary. Commencing as of January 4, 1994, Executive will be paid

an annual compensation of \$170,000 payable in periodic installments in accordance with the Company's normal salary payment dates for executives. Such salary shall be reviewed at least annually and shall be increased from time to time subject to accomplishment of such performance and contribution goals and objectives as may be established from time to time by the Board. The annual compensation specified in this Section 4.1, together with any increases in such compensation that the Board of Directors may grant from time to time, is referred to in this Agreement as "Base Compensation". Reference herein to "Base Monthly Compensation" shall mean the Base Compensation divided by 12.

4.2 Employee Benefits. The Executive shall be eligible to

participate in the employee benefit plans and executive compensation programs maintained by the Company applicable to other key executives of the Company including, without limitation, pension plans, savings or profit-sharing plans, deferred compensation plans, stock option, incentive or other bonus plans, life, disability, health, accident and other insurance programs, paid vacation and similar plans or programs, subject in each case to the generally applicable terms and conditions of the plan or program in question and to the determinations of any committee administering such plan or program.

4.3 Business Expenses and Travel. The Executive shall be authorized

to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall reimburse the Executive for such expenses upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company's

shall pay directly, or reimburse Executive for payments made by him relating to all professional association fees, dues and expenses incurred by or chargeable to Executive (collectively, "Professional Fees") including, but not limited to (a) statutory or professional fees and dues required for continued active membership, in good standing, in the State Bar of California, the American Bar Association, the American Society of Corporate Secretaries and the American Corporate Counsel Association and one or more of the mutually agreed upon sections or divisions of such associations, and (b) customary and reasonable expenses for attending such continuing legal education programs, seminars and conferences on topics involving subject matters that are mutually agreed upon and are either required for compliance with mandatory continuing legal education requirements of the State Bar of California or are otherwise reasonably related to the performance by Executive of his duties and responsibilities.

4.4 Cash Incentive Bonus. The Company will exercise its reasonable

best efforts to adopt an incentive cash bonus plan or similar plan or arrangement providing for the grant of discretionary cash bonuses to its executives and certain other key employees and managers based upon, among other things, such performance objectives, individual contributions and other measurement criteria as the Board or Committee, acting on behalf of the Board, may from time-to-time adopt and approve (herein a "Proposed Bonus Plan"). Executive will be entitled to participate in such Proposed Bonus Plan commencing with the fiscal year beginning October 1, 1993, if, as and when the same is adopted and approved by the Board.

5. COMPANY LOAN. The Company agrees that, on or before January 31, 1994,

and provided it has, before such date, received a written request from Executive, the Company will loan and deliver to Executive the amount of \$80,000 in exchange for and against receipt of a fully executed non interest bearing Promissory Note in the principal amount of \$80,000 payable to the Company in four equal and consecutive annual installments of \$20,000 each of which shall be payable on January 31 ("Payment Date") of each year commencing January 31, 1995, all in accordance with the promissory note attached as Exhibit A (the "Executive Note"). The obligations to pay each annual installment under the Executive Note on the respective Payment Dates when the same shall become due and payable shall be forgiven and discharged if Executive is employed by the Company on each such Payment Date or otherwise in accordance with the provisions of Section 6.2(d). Should Executive's employment with the Company be terminated on, or prior to any Payment Date, either voluntarily or for Cause, with or without notice, the entire outstanding balance under the Executive Note, less any amounts previously forgiven and discharged shall become automatically due and payable not later than thirty (30) days following the date of termination, without notice, presentment or demand by the Company. However, if Executive's termination of employment with the Company

results from his death or Disability at any time, then in such event the entire unpaid amount under the Executive Note shall be forgiven and discharged. The Executive Note and the payment obligations thereunder shall be secured by a subordinated deed of trust on his residential real property commonly known as 2225 St. James Drive, Santa Barbara, California.

6. TERMINATION BY COMPANY.

6.1 For Cause. Upon termination of Executive's employment by the

Company for Cause, all of Executive's rights to salary, fringe benefits and all other payments from the Company will terminate prospectively to the

maximum extent permitted by applicable law and the provisions of any benefit or compensation plans in which Executive participates. Any such termination for Cause by the Company will be effective upon 10 days' written notice, which notice will state that the termination is for Cause and will describe the factual basis for such Cause. The Company may suspend Executive from all duties during this 10-day period. In the event of termination for Cause, Executive shall not be entitled to any severance or other payments pursuant to Section 6.2 of this Agreement. If Executive challenges such termination, and the arbitrator appointed pursuant to Section 13 of this Agreement determines that a purported termination for Cause was without Cause, the termination nonetheless will be effective, but Executive will promptly receive and be entitled to all payments, benefits and property, if any, as if the termination had originally been an Involuntary Termination, including but not limited to those set forth in Section 6.2.

6.2 Involuntary Termination. Upon an Involuntary Termination of

Executive which occurs prior to expiration of the Retention Term, Executive shall be entitled to receive the following rights and benefits:

(a) in accordance with the Company's then existing policies and practices with respect to severance arrangements for executive officers, (i) a severance payment in an amount to be determined in accordance with such practices but such severance payment shall (x) not be less than an amount equal to one (1) month of Executive's Base Compensation for each full year of service (rounded up for partial years over 6 months, rounded down for partial years under 6 months) rendered by the Executive to the Company or any of its Affiliates, and (y) not exceed 24 months of such Base Monthly Compensation; and (ii) the Executive and his family shall be entitled to continue to participate in the Company's Medical and Dental group insurance plans for a period of three (3) years following such termination provided, however, that

the Executive shall be required to pay the employer's and employee's portion of the monthly premium expense and provided further, that Executive's

continuation in such plans and the monthly premium expense to be paid by him shall be subject to such

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changes, including, but not limited to, coverage, coverage limits, deductibles and the like, in such plans and in their administration as may from time-to-time be adopted by the Company;

(b) a lump sum payment in an amount equal to the Executive's Base Monthly Compensation in effect immediately preceding the Involuntary Termination multiplied by the number of months remaining from the date of such Involuntary Termination to the expiration of the Retention Term;

(c) a lump sum payment in an amount equal to the then current average monthly amount of Professional Fees (calculated by dividing by 24 the total aggregate amount of Professional Fees paid or incurred during the immediately preceding 24 months) multiplied by the number of months remaining from the date of such Involuntary Termination to the expiration of the Retention Term;

(d) the remaining unpaid balance due under the Executive Note shall be completely discharged and forgiven and the Company will comply with its obligation under Section 14.9; and

(e) the Company shall pay to Executive the monthly retainer fees in accordance with Section 10.1 hereof.

6.3 Time of Payment. Any amounts due to Executive under this Section 6

(except for those contemplated under Section 6.2(e) hereof) shall be payable not later than the tenth (10th) business day following the effective date of the

termination of Executive's employment.

7. VOLUNTARY TERMINATION BY EXECUTIVE. Executive may terminate his

employment under this Agreement, at any time upon not less than 30 days' prior written notice to the Company. The Company may suspend Executive from all or part of his duties during such notice period or any part thereof. Upon the effective date of any such termination by Executive of this Agreement, all of Executive's rights to salary, fringe benefits, and all other payments and perquisites will terminate prospectively to the maximum extent permitted by applicable law and by the provisions of any benefit or compensation plans in which Executive participates. In the event Executive voluntarily terminates his employment in accordance with this Section 7, the Company may, at its option, to be exercised by written notice given to Executive within ten (10) days following the Company's receipt of Executive's termination notice, elect to require Executive to provide legal services to the Company pursuant to Section 10.2 hereof.

8. AMENDMENT AND TERMINATION. The form of any proper amendment or

termination of this Agreement shall be a written instrument signed by Executive and, on behalf of the Company, by a duly authorized officer or officers of the Company, provided however, that no such amendment or termination shall be binding

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upon the Company unless the same has been authorized by the unanimous resolution of a Disinterested Board and any authorized officer or officers executing any such amendment or termination shall certify that the amendment or termination has been approved by a Disinterested Board. For purposes hereof a "Disinterested Board" means the Board of Directors of the Company excluding those members of the Board of Directors, if any, who are parties to agreements or arrangements identical to or substantially similar to this Agreement.

9. SUCCESSORS.

9.1 Company's Successors. Any successor to the Company (whether

direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise), whether voluntary or involuntarily, to all or substantially all of the Company's business and/or assets shall assume the Company's obligations under this Agreement and agree expressly to perform such obligations in the same manner and to the same extent as the Company would be required to perform such obligation in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers an assumption agreement or similar instrument setting forth the obligations as described in this Section 9.1 or which becomes bound by the terms of this Agreement by operation of law.

9.2 Executive's Successors. The terms of this Agreement and all

rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

10. PROFESSIONAL SERVICES RETAINER.

10.1 Involuntary Termination. Unless otherwise agreed to in writing,

upon an Involuntary Termination of Executive during the Retention Term, Executive agrees to remain available to provide, and to provide to the Company, and the Company agrees to retain Executive to provide, professional legal representation, services and advice ("Legal Services") in accordance with the provisions and subject to the retainer fees set forth in Exhibit B, attached.

10.2 Voluntary Termination. Unless otherwise agreed to in writing,

upon the voluntary termination of Executive during the Retention Term, as provided in Section 7 hereof, the Company shall have the option and right to require Executive to provide Legal Services to the Company as provided in Section 10.1 hereof and subject to the retainer fees and other provisions set forth in Exhibit B.

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11. NOTICES.

11.1 General. Notices and all other communications contemplated by

this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified first class mail, return receipt requested, and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be directed to the attention of its Chief Executive Officer.

11.2 Notice of Termination. Any termination by the Company for Cause

or by the Executive as a result of an Involuntary Termination shall be communicated by a notice of termination to the other party hereto given in accordance with Section 11 of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than 15 days after the giving of such notice). The failure by the Executive to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination or material breach of control by Company shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing his rights hereunder.

12. CONFIDENTIALITY, PROPERTY AND DOCUMENTS

12.1 Confidentiality. Executive acknowledges that he has entered

into a Confidentiality and Assignment Agreement ("Confidentiality Agreement") with the Company and that, as an employee and officer of the Company, he is obliged to comply with the Company's policies and procedures with respect to confidential, proprietary and non-public information. He also acknowledges that during the term of his employment with the Company, he will have access to and knowledge of sensitive, confidential and proprietary information and data including, without limitation, business plans and strategic information (such as, but not limited to plans, prospects and considerations regarding new ventures, resource planning, and corporate financial strategies) identification of executives, managers and employees of the Company, including their specific skills, knowledge, compensation and other data (collectively "Confidential Information").

Executive agrees that he will not, without the Company's prior written consent, at any time after the date of this letter, divulge, furnish or make accessible to anyone or use in any way, any of such Confidential Information in any manner which would injure the Company or interfere with its contractual relations. He further agrees that he will refrain from any acts or omissions that

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would reduce the value of such Confidential Information to the Company, including, but not necessarily limited to, any conduct or activity which would

cause disruption, damage or otherwise impair or interfere with the Company's business by interfering with or raiding its employees, soliciting employees to leave the Company to accept employment with, or provide personal services to, any other firm or Company, or by disrupting its relationships with its employees, customers, vendors, agents, representatives or otherwise.

Executive and the Company agree to keep this agreement, including the existence and contents hereof, in confidence and not to disclose the same or any of its terms to any third party without the written consent of the other. However, nothing contained herein shall prevent (a) either party from disclosing this agreement or the terms thereof to their respective accountants and attorneys and, in the case of the Company, to its employees and directors who have a need to know of the existence and contents hereof; (b) Executive from disclosing the terms of this agreement to his spouse, immediate family members, or to banks or other financial institutions in connection with applications for loans or credit from such entities provided that he shall first advise those firms of the confidential nature of this agreement; or (c) provided Executive is provided with reasonable notice and is advised of the extent of any proposed disclosure, the Company from disclosing the terms and conditions of this agreement or from filing copies of this agreement with any state or federal regulatory agencies, including the Securities and Exchange Commission, if such disclosure or filing of copies is considered by the Company as necessary or appropriate to comply with federal or state securities laws or regulations or other legal or regulatory requirements.

12.2 Return of All Property and Documents. Except as set forth below, upon

the termination of his employment for any reason, Executive immediately will return to the Company all property of the Company, or any of its subsidiaries including, without limitation, all documents and information, however maintained (including computer files, tapes and recordings), concerning the Company acquired by Executive in the course and scope of his employment (excluding only those documents relating to Executive's own salary and benefits and legal materials of Executive as set forth below), the Company keys, credit cards and the like. Notwithstanding the foregoing the Company acknowledges and agrees that Executive shall be permitted to retain originals (or to make, at the Company's expense, photocopies or electronic copies such as on computer disks or other electronic storage media) of forms of documents and records, correspondence, continuing legal education course and seminar materials, agreements, leases, memoranda, opinion letters, legal research materials which have been produced, drafted or used by or at the direction of Executive during the course of his employment with the Company including such documents and materials as may constitute Executive's work product, provided

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however, that Executive shall not use any of such documents or materials in a manner that would contravene Executive's obligations under Section 12.1 hereof or in any manner that would constitute a violation of Executive's professional and ethical responsibilities as an attorney-at-law to preserve the secrets and confidences of the Company. Executive shall be provided reasonable access to the files of the Legal Department for a period of up to 30 days following his termination for purposes of obtaining these documents and materials.

12.3 The Company's Right to Equitable Relief. If Executive commits a

breach, or threatens to commit a breach, of any of the provisions of this Section 12, the Company will have the right to have such provisions specifically enforced by any court having competent equity jurisdiction, and nothing in Section 13 shall be interpreted to the contrary.

13. Arbitration. Any controversy, dispute or claim arising out of,

relating to or concerning this Agreement, the breach of this Agreement, the employment of Executive, or the termination of Executive's employment will be resolved pursuant to this Section 13.

13.1 Agreement to Negotiate. Prior to submitting any controversy,

dispute or claim to arbitration, the parties hereto will observe the following procedures:

(a) The party desiring to submit any such controversy, dispute or claim to arbitration ("Claimant") first will give written notice thereof to the other party or parties ("Recipient") setting forth in detail the pertinent facts and circumstances relating to such controversy, dispute or claim.

(b) Recipient will have a period of fifteen (15) days in which to consider the controversy, dispute or claim which is the subject of the notice and to furnish in writing to Claimant a written statement of the position of Recipient.

(c) Within seven (7) days after Claimant's receipt of the written statement of Recipient or the expiration of the fifteen (15) day period set forth in subsection (b), whichever is first, the parties will meet (with counsel, in the discretion of each party) in an effort to resolve amicably all differences which may exist and, failing such resolution, either party will have the right to submit the matter to arbitration.

(d) All communications between the parties under this Section 13.1 shall be deemed communications concerning settlement (including, without limitation, pursuant to California Evidence Code Section 1152 and FRCP Section 408) and shall not be admissible in any subsequent arbitration or litigation.

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13.2 Procedure for Arbitration.

(a) Any controversy, dispute or claim arising out of, relation to or concerning this Agreement, the breach of this Agreement, the employment of Executive, or the termination of Executive's employment will be settled by arbitration in Los Angeles, California in accordance with the Labor Arbitration Rules of the American Arbitration Association (the "AAA") then existing. (Should the AAA publish rules designed to accomplish the arbitration of employment disputes between employees not represented by a union and their employers or recommend the use of other rules, then those rules will be utilized in lieu of the Labor Arbitration Rules.) Each party shall have the right to produce evidence and provide witnesses. This agreement to arbitrate will be specifically enforceable. Judgment upon any award rendered by an arbitrator may be entered in any court having jurisdiction.

(b) Subject to Subsection 13.1 above, any demand for arbitration may be filed with the AAA and served on the other party at any time within the period covered by the applicable statute of limitations.

(c) one arbitrator will be appointed by both parties in the following manner: the AAA will furnish the parties with a list of potential arbitrators. All such arbitrators must be attorneys. If either party objects to all of the names on the list, the AAA will provide the parties with an alternative list of potential arbitrators. In no event may a party reject more than one list. Notice of rejection must be given to the AAA within seven (7) business days of receipt of the list. Once a particular list has been accepted by both parties, the parties alternatively will eliminate the names of the arbitrators until only one name remains. That remaining person will be appointed the arbitrator. The parties will draw lots to decide which party will eliminate the first name from the list. Either party may have the proceedings recorded by a reporter at the party's expense. If both parties request a transcript, the cost of the reporter will be shared equally by the parties. The cost of the arbitrator will be shared equally by both parties.

(d) The arbitrator will have no authority to extend, modify or suspend any of the terms of this Agreement. The arbitrator will make his award in writing and shall accompany it with an opinion discussing the evidence and

setting forth the reasons for his award.

(e) The arbitrator shall have the power to make all factual determinations and rule on all issues of law. Any award rendered by the arbitrator shall be final and binding upon each party to the arbitration and unreviewable for error or law or legal reasoning of any kind and any such award may be confirmed, and

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judgment on such award may be entered, in any court of competent jurisdiction.

(f) If the rules of the AAA differ from those of this Section, the provisions of this Agreement will control.

14. GENERAL PROVISIONS.

14.1 No Duty to Mitigate. The Executive shall not be required to

mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Executive may receive from any other source.

14.2 Entire Agreement. This Agreement constitutes the entire

understanding between the parties with respect to the subject matter hereof, superseding all prior or contemporaneous negotiations, discussions, or preliminary or final agreements, written or oral.

14.3 Governing Law. This Agreement will be governed by and

construed in accordance with the laws of the State of California.

14.4 No Assignment. This Agreement is personal to the Company and to

Executive and may not be assigned or delegated by either party without the written consent of the other party.

14.5 No Waiver. Neither party's failure to enforce any provision or

provisions of this Agreement will be construed in any way as a waiver of any such provision or provisions, or prevent that party thereafter from enforcing each and every other provision of this Agreement. Nothing contained in this Agreement, including but not limited to the provisions of Sections 6.1 and 7 hereof, shall be construed to release, waive, discharge or limit, in any manner whatsoever, Executive's rights under (a) the indemnification provisions of Article VII of the Bylaws of the Company or any successor Bylaw provisions relating to the indemnification of the Company's officers and directors as may hereafter be adopted by the Company, provided however, that without Executive's written consent such successor Bylaw provision shall not limit the scope, nature or conditions of the indemnification currently provided under the Bylaws, (b) California Labor Code Section 2802, or (c) the Company's Directors and Officers Liability Insurance and Company Reimbursement Policy No. 440-99-28 with National Union Fire Insurance Company, or any renewal or replacement thereof, subject however to the terms and conditions thereof. Further, the parties acknowledge that the Company is presently obligated to, and is, indemnifying Executive in connection with the Securities Litigation and the Company agrees to continue to do so to the maximum extent possible under the Laws of the State of Delaware. The Company's obligation to continue to indemnify, defend and hold Executive

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harmless shall survive termination of this Agreement independent of the reasons for termination.

14.6 Withholding Taxes. Executive agrees and understands that payroll

taxes will be withheld from the amounts payable hereunder in accordance with applicable law as determined by the Company.

14.7 Partial Invalidity. The invalidity or unenforceability of any

provision or portion of this Agreement will not affect the validity or enforceability of the other provisions or portions of this Agreement.

14.8 Amendments. No modification, amendment or waiver of any

provision hereof will be binding or valid unless made in accordance with the provisions of Section 9 hereof.

14.9 Release and Reconveyance. Upon satisfaction or payment in full

of all obligations under the Executive Note by Executive, whether by payment or by forgiveness and discharge, the Company will take all actions reasonably necessary and appropriate to release and discharge such note and any security held by the Company including but not limited to execution and delivery of releases and reconveyances in recordable form.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first set forth above.

APPLIED MAGNETICS CORPORATION

EXECUTIVE

William R. Anderson
Chief Executive Officer

Raymond P. Le Blanc

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EXHIBIT B

TERMS AND CONDITIONS REGARDING
PROFESSIONAL SERVICES RETAINER ARRANGEMENTS.

1. Referenced Agreement.

Reference is made to that certain Retention Agreement dated as of January 2, 1994 of which this exhibit is a part and is incorporated by reference. Defined terms in the Retention Agreement shall have the same meaning as used in this Exhibit.

2. Scope of Services.

Executive will act as counsel for and provide legal representation to the Company and its subsidiaries in general business, transactional, corporate and commercial matters relating to the conduct of the business of the Company and its subsidiaries and will advise the Company and its officers, directors and employees by telephone and in conferences on such matters. Such services (herein "Legal Services") will include, specifically, the following:

Monitoring developments regarding pending litigation and disputes including, to the extent pending at the time of Executive's termination, the Securities litigation and the Lupac v. Applied Magnetics and Magnetic

Data Belgium litigation and coordinating with and advising the Company's

management on these cases, including defense, settlement, adjudication, appeal or other disposition of such matters.

Advising the Company and its management, officers and employees regarding developments affecting the notes, securities and other contractual performance or payment rights held by the Company in connection with the sale of its Optical Products and Test Systems divisions and its former subsidiaries, Magnetic Data, Inc. and Brumko Magnetics, Inc. and any amendments, restructurings or renegotiations of such rights or the transactions, agreements and documents incorporating the same.

Labor and employment matters including actual or threatened claims for wrongful termination or breach of implied covenants, advice and counseling with respect to various of the Company's employee benefit plans including, but not necessary limited to, its Key Employee Home Ownership and First Home Assistance Plans, its Employee Stock Option Plans, Employee Stock Purchase Plan and other benefit and compensation plans.

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Advising the Company with respect to the disposition and negotiation and resolution of matters involving license and technology agreements by and between the Company and other parties.

Such other assignments as are mutually agreed upon between the Executive and Company

3. Engagement Term. As used herein the Engagement Term shall mean the 12 month

period beginning on the first day of the first month immediately following Executive's voluntary or Involuntary Termination.

4. Availability Commitment/Retainer Arrangements.

4.1 During the Engagement Term, Executive agrees to reserve, commit and make available time ("Availability Commitment") to provide Legal Services to the Company at the rate of forty hours per month.

4.2 As consideration for the Executive's Availability Commitment, the Company will pay to Executive a retainer fee in advance at the beginning of each month during the Engagement Term in the amount of \$10,000 per month.

4.3 The Executive shall maintain timely and accurate records and accounts of the hours expended by him for the services contemplated hereunder and shall furnish the Company monthly invoices for services rendered ("Billing Statements"). In the event that the number of hours actually expended by Executive during any month is less than the Availability Commitment, the Company shall not be entitled to any credit or carry-over for the next ensuing month, except as expressly set forth in Schedule 4.3 hereof. In the event that the Executive provides services in excess of the applicable Availability Commitment during any month, Executive and the Company agree that Executive shall be paid for such excess services at an hourly rate of \$200 per hour. Executive agrees that he will not increase this hourly rate during the Engagement Term without the consent of the Company.

5. Out-Of-Pocket/Other Expenses.

The Executive shall bear all costs of secretarial and clerical staff or resources engaged by him in the performance of Legal Services to the Company hereunder for typing and other customary and usual secretarial services. The fee arrangements provided in Item 4 above shall not be deemed to compensate Executive for out-of-pocket expenses reasonably incurred by Executive in providing services contemplated herein including, but not necessarily limited to: (a) reproduction and telecopier expenses, (b) telephone, express mail, courier, and federal express and other similar charges, (c) filing or recording

expenses paid or advanced on behalf of the Company by the Executive; and (d) travel expenses. Executive shall be entitled to reimbursement from the Company of all such expenses incurred by him on behalf of the Company provided, however, that in the case of travel expenses, Executive shall only be entitled to reimbursement for coach class or equivalent air travel except, in the case of international travel, in which case, if the Company's then current travel expense policies and practices so permit or authorize, Executive shall be entitled to reimbursement for business class or equivalent air travel. Executive shall submit periodic invoices in sufficient detail, to substantiate the expenses and costs incurred by him on behalf of the Company.

6. Payment Terms.

Except for retainer fees payable in accordance with Section 4.2 hereof, payment for Legal Services and fees rendered to, and expenses incurred on behalf of, the Company are due and payable thirty (30) days from date of the Billing Statement. If the amount due is not paid within the thirty (30) day period, the unpaid amount shall be subject to a service charge of 1.5% per month until the amount due is paid in full.

7. Access to files and Company Personnel.

In the course of performing services as contemplated hereunder, the Executive shall be entitled to access all Company files relating to the subject in question at all reasonable times and subject, however, to the Company's customary and usual practices with respect to the protection and security of its confidential files and records. Further, the Company shall make available to the Executive, for purposes of allowing Executive to perform the services contemplated herein, such Company personnel as may reasonably be required for conferences, meetings, compilation of records and facts and appearances as witnesses and the like. The Company shall comply with all reasonable requests of the Executive in connection with these obligations to make files, records and witnesses and personnel available in connection with the presentation and preparation of the Company's position in connection with any matter as to which Executive is providing services hereunder.

8. Executive's Association with Other Counsel.

Executive may, in Executive's sole discretion, associate with any other attorneys or law firms in connection with the Executive's providing Legal Services to the Company as contemplated herein. Such association may be as an associate, partner, "of counsel" relationship or other similar co-counsel arrangement, provided however, that, unless the Company in its sole discretion elects otherwise, the Executive will act as lead counsel in any and all matters undertaken by him on behalf of the Company pursuant to this

engagement. At the request of Executive, if the Company approves the retention of such other counsel and the applicable hourly rates and terms of retention, then in such event the Company shall be obligated to pay and shall pay for such legal services and costs for such other counsel.

9. Cooperation of the Company.

The Company shall keep the Executive advised of all developments and matters affecting the tasks and assignments undertaken by the Executive pursuant to this engagement and the Company shall appear or cause its officers, directors and

employees to appear on reasonable notice at any and all depositions and court appearances and shall comply with all reasonable requests of the Executive in connection with the preparation and presentation of claims or defenses on behalf of the Company and otherwise in the context of transactional matters, negotiations and the like involving tasks and assignments undertaken by an Executive pursuant to this engagement.

10. Malpractice Insurance.

Executive agrees that as soon as practicable following the commencement of the Engagement Term, he shall, at his expense, use his best reasonable efforts to promptly make application for, and procure a policy of insurance covering, malpractice having a minimum coverage limit of \$1,000,000.

Schedule 4.3

To the extent, if any, that the average hourly rate for Legal Services actually billed by the Executive and paid by the Company during each quarter of the Engagement Term (commencing with the quarter starting at the beginning of the Engagement Term) exceeds \$250 per hour, the Company shall be entitled to a credit against amounts payable to the Executive for Legal Services rendered during the next succeeding quarter in an amount, not to exceed \$6,000, calculated by multiplying such excess by the total number of hours expended during the preceding quarter.

The following is an illustration of this credit calculation:

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Month	Hours Worked	Quarter	Total Billed/ Paid (\$10K Retainer Plus Excess @ 200/hr During Quarter	Avg. Hourly Rate-Last 3 Mos.	Excess Over \$250/hr	Amount Credited Against Next Quarter's Fees
1	80					
2	60					
3	30	1	\$42,000	\$247.05	-\$0.00-	-\$0.00-
4	40					
5	30					
6	70	2	\$36,000	\$257.14	\$7.14	\$ 999.60
7	60					
8	50					
9	15	3	\$36,000	\$288.00	\$38.00	\$4,750.00
10	20					
11	40					
12	60	4	\$34,000	\$283.33	\$33.33	End

</TABLE>

The amount applied as a credit against fees for Legal Services rendered or to be rendered in the next ensuing quarter shall be credited and offset against each of the three monthly Retainer Fees payable during such quarter on a proportionate basis. For example, in the example above, each monthly Retainer Fee payable during the third quarter would be reduced by \$333.20 (\$999.60/3). Any amounts available as a credit at the end of the last quarter on the Engagement Term will be applied and offset against Legal Services, if any, provided by Executive during the one year period following the end of the Engagement Term on a mutually acceptable basis, but will not, otherwise, represent an obligation of Executive to repay or refund such amount.

Exhibit 11

STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(in thousands, except per share data)

<TABLE>
<CAPTION>

	For the three months ended March 31,		For the six months ended March 31,	
	1994 ----	1993 ----	1994 ----	1993 ----
<S>	<C>	<C>	<C>	<C>
Primary Earnings Per Share:				
Net income (loss)	\$ (9,375)	\$ 3,614	\$ (15,620)	\$ 5,747
	=====	=====	=====	=====
Weighted average common shares outstanding	22,087	19,969	22,083	18,266
Dilutive effect of stock options	--	654	--	547
	-----	-----	-----	-----
Primary weighted average common and common equivalent shares	22,087	20,623	22,083	18,813
	=====	=====	=====	=====
Primary earnings per share:				
Net income (loss)	\$ (0.42)	\$ 0.18	\$ (0.71)	\$ 0.31
	=====	=====	=====	=====
Fully Diluted Earnings Per Share:				
Net income (loss)	\$ (9,375)	\$ 3,614	\$ (15,620)	\$ 5,747
Interest expense, net of tax on convertible note	--	117	--	--
	-----	-----	-----	-----
Net income (loss)	\$ (9,375)	\$ 3,731	\$ (15,620)	\$ 5,747
	=====	=====	=====	=====
Weighted average common shares outstanding	22,087	19,969	22,083	18,266
Dilutive effect of stock options	--	655	--	620
Dilutive effect of convertible note	--	864	--	594
	-----	-----	-----	-----
Fully diluted weighted average and common equivalent shares	22,087	21,488	22,083	19,480
	=====	=====	=====	=====
Fully diluted earnings per share:				
Net income (loss)	\$ (0.42)	\$ 0.17	\$ (0.71)	\$ 0.30
	=====	=====	=====	=====

</TABLE>