UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2004

OR

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

For the transition period from ____ to_____

Commission file number 1-8703

WESTERN DIGITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**33-0956711** (I.R.S. Employer Identification No.)
20511 Lake Forest Drive **Lake Forest, California** (Address of principal executive offices)	**92630** (Zip code)

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

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

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

As of the close of business on October 29, 2004, 205.3 million shares of common stock, par value $.01 per share, were issued and outstanding.

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Western Digital Corporation (the “Company” or “Western Digital”) has a 52 or 53-week fiscal year, which typically ends on the Friday nearest to June 30. However, approximately every six years, the Company reports a 53-week fiscal year to align its fiscal quarters with calendar quarters by adding a week to its fourth fiscal quarter. Unless otherwise indicated, references herein to specific years and quarters are to the Company’s fiscal years and fiscal quarters, and references to financial information are on a consolidated basis.

The information on the Company’s web site, http://www.westerndigital.com, is not incorporated by reference in this Quarterly Report on Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts; unaudited)

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2003
Revenue, net	$823.6	$714.2
Cost of revenue	710.5	618.0
Gross margin	113.1	96.2
Operating expenses:		
Research and development	54.0	63.7
Selling, general and administrative	27.9	27.6
Total operating expenses	81.9	91.3
Operating income	31.2	4.9
Net interest and other income	—	0.3
Income before income taxes	31.2	5.2
Income tax expense	0.8	0.2
Net income	$ 30.4	$ 5.0
Income per common share:		
Basic	$ .15	$ .02
Diluted	$ .14	$ .02
Weighted average shares outstanding:		
Basic	205.2	204.1
Diluted	212.6	215.9

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

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WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par values; unaudited)

	OCT. 1, 2004	JUL. 2, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 405.2	$ 377.8
Accounts receivable, net	400.7	313.1
Inventories	144.3	148.6
Other	17.4	17.8
Total current assets	967.6	857.3
Property and equipment, net	304.0	274.7
Intangible and other assets	23.4	27.2
Total assets	$1,295.0	$1,159.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 535.6	$ 434.9
Accrued expenses	160.3	136.8
Current portion of long-term debt	19.8	15.2
Total current liabilities	715.7	586.9
Long-term debt	47.7	52.7
Other liabilities	24.1	32.0
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized — 5.0 shares; outstanding — none	—	—
Common stock, $.01 par value; authorized — 450.0 shares; outstanding — 208.8 shares	2.1	2.1
Additional paid-in capital	684.7	697.6
Accumulated deficit	(152.5)	(182.9)
Treasury stock — common shares at cost 2.7 and 3.6 shares, respectively	(26.8)	(29.2)
Total shareholders' equity	507.5	487.6
Total liabilities and shareholders' equity	$1,295.0	$1,159.2

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2003
Cash flows from operating activities:		
Net income	$ 30.4	$ 5.0
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	29.0	21.4
In-process research and development expense	—	25.6
Changes in:		
Accounts receivable	(87.9)	(82.3)
Inventories	4.3	(16.1)
Other assets	0.3	(3.8)
Accounts payable	100.7	34.3
Accrued expenses	24.4	4.8
Other	(8.1)	(6.9)
Net cash provided by (used for) operating activities	93.1	(18.0)
Cash flows from investing activities:		
Capital expenditures, net	(50.7)	(19.9)
Asset acquisition, net of cash acquired	—	(94.8)
Net cash used for investing activities	(50.7)	(114.7)
Cash flows from financing activities:		
Proceeds from shares issued under employee plans	4.7	11.5
Repurchase of common stock	(15.0)	—
Repayment of long-term debt	(4.7)	—
Net proceeds from long-term debt	—	13.8
Net cash (used for) provided by financing activities	(15.0)	25.3
Net increase (decrease) in cash and cash equivalents	27.4	(107.4)
Cash and cash equivalents, beginning of period	377.8	393.2
Cash and cash equivalents, end of period	$405.2	$ 285.8
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 0.6	$ 0.4
Cash paid during the period for interest	$ 0.5	$ —
Supplemental disclosures of non-cash investing and financing activities:		
Equipment additions funded by capital lease obligations	$ 4.3	$ —
Liabilities assumed in asset acquisition	$ —	$ 77.2

WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accounting policies followed by the Company are set forth in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K as of and for the year ended July 2, 2004. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended July 2, 2004. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain prior periods' amounts have been reclassified to conform to current period presentation.

Company management has made estimates and assumptions relating to the reporting of certain assets and liabilities in conformity with generally accepted accounting principles. These estimates and assumptions have been applied using methodologies, which are consistent throughout the periods presented. However, actual results could differ from these estimates.

2. Supplemental Financial Statement Data (in millions)

	OCT. 1, 2004	JUL. 2, 2004
Inventories:		
Finished goods	$ 88.1	$ 70.6
Work in process	45.1	51.6
Raw materials and component parts	11.1	26.4
	$144.3	$148.6

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2003
Net Interest and Other Income:		
Interest income	$ 0.8	$ 0.7
Interest and other expense	(0.8)	(0.4)
	$ —	$ 0.3

The Company records a provision for estimated warranty costs as products are sold to cover the cost of repair or replacement of the hard drive during the warranty period. This provision is based on estimated future returns within the warranty period and costs to repair, using historical field return rates by product type and current average repair costs. Changes in the warranty provision for the three months ended October 1, 2004 and September 26, 2003 were as follows (in millions):

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2003
Liability at beginning of period	$ 56.8	$ 52.9
Charges to operations	18.4	13.3
Utilization	(12.6)	(11.1)
Changes in liability related to pre-existing warranties	2.7	(3.1)
Liability at end of period	$ 65.3	$ 52.0

3. Income per Share

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

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2003
Net income	$ 30.4	$ 5.0
Weighted average shares outstanding:		
Basic	205.2	204.1
Employee stock options and other	7.4	11.8
Diluted	212.6	215.9
Income per share:		
Basic	$ .15	$ .02
Diluted	$ .14	$ .02

For purposes of computing diluted income per share, common share equivalents with an exercise price that exceeded the average fair market value of the common stock for the period are considered anti-dilutive and have been excluded from the calculation for employee stock options. These anti-dilutive common share equivalents totaled 17.7 million and 13.4 million for the three months ended October 1, 2004 and September 26, 2003, respectively.

4. Stock Based Compensation

Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), establishes the financial accounting and reporting standards for stock-based compensation plans. As permitted by SFAS 123, the Company elected to continue accounting for stock-based employee compensation plans (including shares issued under the Company’s stock option plans and Employee Stock Purchase Plan (“ESPP”), collectively called “Options”) in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations (“APB Opinion No. 25”), and to follow the pro forma net income (loss), pro forma income (loss) per share, and stock-based compensation plan disclosure requirements set forth in SFAS 123. The following table sets forth the computation of basic and diluted income (loss) per share for the three months ended October 1, 2004 and September 26, 2003, and illustrates the effect on net income (loss) and income (loss) per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	THREE MONTHS ENDED	
	OCT. 1, 2004	SEP. 26, 2004
Net income, as reported	$30.4	$ 5.0
Add: Stock-based employee compensation included in reported net income, net of related taxes	0.2	0.5
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(5.9)	(6.7)
Pro forma net income (loss)	$24.7	$(1.2)
Basic income (loss) per share:		
As reported	$0.15	$ .02
Pro forma	$0.12	$(.01)
Diluted income (loss) per share:		
As reported	$0.14	$ .02
Pro forma	$0.12	$(.01)

The pro forma income (loss) per share information is estimated using the Black-Scholes option-pricing model. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including the expected stock price volatility and expected period until options are exercised. The pro forma impact of applying SFAS 123 at October 1, 2004 is not necessarily representative of future periods.

The fair value of Options granted during the three months ended October 1, 2004 and September 26, 2003, has been estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	STOCK OPTION PLANS		ESPP	
	OCT. 1, 2004	SEP. 26, 2003	OCT. 1, 2004	SEP. 26, 2003
Option life (in years)	4.43	4.01	1.25	1.25
Risk-free interest rate	2.96%	1.66%	2.02%	1.09%
Stock price volatility	0.58	0.77	0.58	0.77
Dividend yield	—	—	—	—
Fair value	$3.82	$6.61	$2.81	$4.64

5. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt consisted of the following on October 1, 2004 (in millions):

Term loan	$ 46.9
Capital lease obligations	20.6
Total	67.5
Less amounts due in one year	(19.8)
	$ 47.7

Line of Credit

The Company has a $125 million five-year credit facility (“Senior Credit Facility”) that provides up to $75 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation) and a term loan of $50 million. Both the term loan and revolving credit facility mature on September 19, 2008, and are secured by the Company’s accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets. At the option of the Company, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin.

The Senior Credit Facility prohibits the payment of cash dividends on common stock and contains specific financial covenants. The Company is required to maintain an available liquidity level of $300 million at the end of each quarter. Available liquidity is defined as cash plus eligible trade receivables. As of October 1, 2004, the Company was in compliance with this covenant. Should the Company’s available liquidity be less than $300 million, the Company would then be subject to minimum EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and capital expenditure limitations.

The $50 million term loan requires quarterly principal payments of $3 million beginning in October 2004. During the three months ended October 1, 2004, the Company had $3 million in outstanding letters of credit, and $75 million was available for borrowing.

6. Read-Rite Asset Acquisition

In June 2003, Read-Rite Corporation (“Read-Rite”), then one of the Company’s suppliers of magnetic recording heads, commenced voluntary Chapter 7 bankruptcy proceedings. On July 31, 2003, Western Digital purchased substantially all of the assets of Read-Rite, including its wafer fabrication equipment in Fremont, California and manufacturing facility in Bang Pa-In, Thailand. The cost of the acquisition was $172.0 million and consisted of cash consideration of $94.8 million, assumed debt obligations of the Thailand operations of approximately $60.2 million, direct costs of the acquisition and other miscellaneous assumed obligations totaling $17.0 million. The Company accounted for this transaction as an asset acquisition. The estimated fair value of the assets acquired and liabilities assumed are as follows:

Current assets	$ 17.4
Property and equipment	90.2
Purchased technology	38.8
In-process research and development	25.6
	$172.0

As of the date of the acquisition, Read-Rite had two in-process research and development ("IPR&D") projects: 120 gigabyte per platter and 160 gigabyte per platter products. The fair value allocated to these projects as part of the acquisition was $17.8 million and $7.8 million, respectively. The multi-period excess earnings method, a discounted cash flow income approach, was used to determine the value allocated to the IPR&D. The rate utilized to discount the cash flows to their present values was based on the weighted average cost of capital and an additional risk premium based on an analysis of the technology and the IPR&D stages of completion. Based on these factors, 27% was used as the annual discount rate. These acquired IPR&D projects had not reached technological feasibility and had no alternative future use. Accordingly, the Company recorded the $25.6 million as a charge to research and development expense at the time of the acquisition.

Approximately $38.8 million of the purchase price related to purchased technology, which is being amortized over a weighted average period of three years. During the three months ended October 1, 2004, the Company recorded $3.7 million of amortization expense related to these intangible assets. Amortization expense is estimated to be $14.4 million, $4.4 million, $3.4 million and $3.4 million for fiscal years 2005, 2006, 2007 and 2008, respectively.

7. Legal Proceedings

In June 1994, Papst Licensing ("Papst") brought suit against the Company in the United States District Court for the Central District of California, alleging infringement by the Company of five hard disk drive motor patents owned by Papst. In December 1994, Papst dismissed its case without prejudice. In July 2002, Papst filed a new complaint against the Company and several other defendants. The suit alleges infringement by the Company of seventeen of Papst's patents related to hard disk drive motors that the Company purchased from motor vendors. Papst is seeking an injunction and damages. The Company filed an answer on September 4, 2002, denying Papst's complaint. On December 11, 2002, the lawsuit was transferred to the United States District Court for the Eastern District of Louisiana and included in the consolidated pre-trial proceedings occurring there. The lawsuit was stayed pending the outcome of certain other related litigation. The Company believes that the outcome of this matter will not have a material adverse impact on the Company's financial statements. The Company intends to vigorously defend the suit.

In the normal course of business, the Company is subject to legal proceedings, lawsuits and other claims. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters, including the matter described in the preceding paragraph, is subject to many uncertainties and is therefore not predictable with assurance, management believes that any monetary liability or financial impact to the Company from these matters, individually and in the aggregate, beyond that provided at October 1, 2004, would not be material to the Company's financial condition. However, there can be no assurance with respect to such result, and monetary liability or financial impact to the Company from these legal proceedings, lawsuits and other claims could differ materially from those projected.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K as of and for the year ended July 2, 2004.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws. The statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecasts," and the like. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning growth of unit shipments of hard disk drives in the desktop personal computer ("PC"), consumer electronics ("CE") and mobile markets; increase in the demand for desktop PC hard disk drives in Asia; growth of the consumer market for multi-media applications, including audio-video products, incorporating a hard disk drive; the Company's expansion into the CE market; expansion of the Serial Advanced Technology Attachment ("SATA") interface in enterprise hard disk drives; the Company's current expectations regarding depreciation expense and working capital investments for the head manufacturing operations, capital expenditures, gross margin percentage, cash conversion cycle, inventory turns, cash and cash equivalents, utilization of liquidity and cash flows; and the impact of the acquisition of head manufacturing assets on the Company's long-term financial business model.

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

Business Overview

Western Digital designs, develops, manufactures and markets hard disk drives for digital information storage. The Company's hard disk drives are used in desktop PCs, notebook PCs, enterprise servers, network attached storage devices, an expanding list of CE products such as video game consoles, personal/digital video recorders and satellite and cable set-top boxes, and as external storage devices. Western Digital markets its hard disk drives directly to PC manufacturers, including large, brand name PC manufacturers such as Dell and Hewlett Packard; to CE manufacturers; and to distributors, resellers and retailers that serve a wide range of end users. Unless otherwise noted, all references to market share and industry data included in this discussion are according to the Gartner report published in April 2004.

Western Digital builds hard disk drives in assembly facilities in Malaysia and Thailand. The Company also builds hard disk drive components such as printed circuit board assemblies, head stack assemblies, and head gimbal assemblies in its Malaysia and Thailand facilities. Western Digital procures other components from industry-leading technology companies, many of which work with the Company from design and development through manufacturing.

Currently, eight hard disk drive manufacturers compete in the $22 billion-a-year hard disk drive market, compared to fifteen manufacturers in calendar year 2000. According to Gartner quarterly reports published in 2004 and calendar year 2003, Western Digital, Seagate Technology, Maxtor Corporation, and Hitachi Global Storage Technologies supplied approximately 80% of the total hard disk drive market during 2004.

The Company focuses on providing quality products, superior customer service and flexibility by managing its technology deployment, manufacturing, cost, delivery, quality and reliability. Western Digital believes that its operating model allows it to access leading-edge component technologies and cost-saving innovations while minimizing investment expenditures.

Western Digital's growth will be influenced greatly by developments in the PC hard disk drive market. Gartner estimates that unit shipments of hard disk drives in the desktop PC market will grow by approximately 4% per year through calendar year 2008. The Company has increased its resources to address certain fast-growing geographic markets such as Asia, Latin America, Eastern Europe and Russia. The Company's revenue in Asia during the three months ended October 1, 2004 increased by 8% to $252 million as compared to $227 million for the three months ended September 26, 2003. Gartner estimates that demand for desktop PC hard disk drives in Asia will increase approximately 12% per year through calendar year 2008.

Many consumer applications currently employ similar hard disk drive technology as is found in desktop PCs. Thus, Western Digital presently believes it can continue to expand shipments into this developing market using much of its existing hard disk drive technology. As this market develops, additional investments by the Company may be required. Gartner estimates that unit shipments of 3.5-inch form factor hard disk drives in the CE market will grow by approximately 26% per year through calendar year 2008.

The Company is also pursuing new revenue opportunities in non-PC, information technology ("IT") applications through its application of the SATA interface. The SATA interface contains many of the same benefits of the small-computer-systems-interface, or SCSI — the predominant interface currently used in most enterprise hard disk drive applications. According to its annual report published in May 2004, TrendFOCUS, Inc. ("TrendFOCUS") estimates that 43% of enterprise hard disk drive unit shipments will use the SATA interface by calendar year 2007.

In addition to the CE and SATA growth opportunities, the Company recently entered the mobile hard disk drive market, commencing volume production of its WD Scorpio™ family of 2.5-inch hard disk drives for notebook PCs. Gartner forecasts that unit sales of 2.5-inch form factor hard disk drives to the mobile computing market will grow from an estimated 47 million in calendar year 2003 to approximately 97 million in calendar year 2008, reflecting a compound annual growth rate of approximately 15%. Shipments of mobile hard disk drives during the three months ended October 1, 2004 were not significant.

Read Rite Asset Acquisition

In June 2003, Read-Rite, then one of the Company's suppliers of magnetic recording heads, commenced voluntary Chapter 7 bankruptcy proceedings. On July 31, 2003, Western Digital purchased substantially all of the assets of Read-Rite, including its wafer fabrication equipment in Fremont, California and manufacturing facility in Bang Pa-In, Thailand. The cost of the acquisition was $172.0 million.

Western Digital's acquisition of the head manufacturing operations represented a fundamental change in the Company's operating structure as the Company is now manufacturing heads for use in its hard disk drives. Previously, the Company purchased all of its recording head requirements from external suppliers, including Read-Rite. The Company acquired the Read-Rite assets for the following reasons:

- to enhance its financial business model,
- to gain better control of head technology as the Company's business grows,
- to improve flexibility, product planning and quality, and
- to improve its cost structure and tighten its supply chain through better operational integration.

Taking the asset acquisition into consideration, the Company expects its long-term financial business model to benefit from a higher gross margin percentage, offset by higher research and development expenses, than it otherwise would have had without the acquisition. The gross margin percentage improvement will result from lower cost of sales, as the Company develops the ability to manufacture heads at a lower cost than what it would have otherwise paid external suppliers. The Company began realizing these net financial benefits in 2004. However, these benefits have been offset by downward pressures on gross margins caused by an aggressive pricing environment. The Company is currently satisfying a substantial portion of its head requirements through its own head manufacturing operations.

As a result of integrating the head manufacturing operations, the Company carries a higher percentage of fixed costs than assumed in its prior financial business model. For example, depreciation expense for the head manufacturing operations is expected to be between $15 million and $20 million per quarter by the end of 2005.

Capital expenditures and working capital investments required to support the head manufacturing operations will increase when compared to the Company's prior financial business model. For example, capital expenditures related to the head manufacturing operations are expected to average between $80 million and $100 million on an annual basis. Also, inventory turns are expected to decrease to between 17 and 19 from the Company's historical average of between 20 and 22.

As of the date of the acquisition, Read-Rite had two in-process research and development ("IPR&D") projects: 120 gigabyte per platter and 160 gigabyte per platter products. The fair value allocated to these projects as part of the acquisition was $17.8 million and $7.8 million, respectively. The multi-period excess earnings method, a discounted cash flow income approach, was used to determine the value allocated to the IPR&D. The rate utilized to discount the cash flows to their present values was based on the weighted average cost of capital and an additional risk premium based on an analysis of the technology and the IPR&D stages of completion. Based on these factors, 27% was used as the annual discount rate. These acquired IPR&D projects had not reached technological feasibility and had no alternative future use. Accordingly, the Company recorded the $25.6 million as a charge to research and development expense at the time of the acquisition.

First Quarter Overview

For the three months ended October 1, 2004, Western Digital produced net revenue of $824 million, an increase of 15% over the three months ended September 26, 2003. The Company shipped 14.2 million units, including approximately 1.8 million units to the CE market. Gross margin for the three months ended October 1, 2004 was $113 million, or 13.7% of revenue, up from $96 million or 13.5% in the prior year. The prior year amount included $18 million of start-up related charges incurred in the first quarter of 2004 related to the Read-Rite asset acquisition. The Company's gross margin percentage continued to be adversely impacted by competitive pricing conditions. Operating income was $31 million in the first quarter of 2005 compared to $5 million for the same period in the prior year. The prior year amount included approximately $50 million of non-recurring charges and start-up expenses related to the Read-Rite asset acquisition, $26 million of which represented charges to operating expense for IPR&D projects resulting from the acquisition. Western Digital generated $93 million in cash flow from operations during the first quarter of 2005 and ended the quarter with $405 million in cash and cash equivalents, an increase of $27 million from the July 2, 2004 balance. The Company invested $51 million in capital expenditures and also repurchased 2.1 million shares of its common stock for $15 million.

Results of Operations

The following table sets forth, for the periods indicated, summary information from the Company's statements of income (dollars in millions):

	THREE MONTHS ENDED			
	OCT. 1, 2004		SEP. 26, 2003	
Revenue, net	$823.6	100.0%	$714.2	100.0%
Gross margin	113.1	13.7	96.2	13.5
Total operating expenses	81.9	9.9	91.3	12.8
Operating income	31.2	3.8	4.9	0.7
Net income	30.4	3.7	5.0	0.7

Net Revenue

Net revenue was $823.6 million for the three months ended October 1, 2004, an increase of 15.3%, or $109.4 million, from the three months ended September 26, 2003. Total unit shipments increased to 14.2 million for the first quarter of 2005 as compared to 11.3 million for the first quarter of 2004. This resulted from an increase in market share and overall demand for hard disk drives in the desktop PC market and the emerging CE market. This growth in units was partially offset by a $5 per unit decline in average selling prices ("ASPs") to $58 per unit for the first quarter of 2005 compared to $63 per unit for the first quarter of 2004.

Revenue by geographic region for the first quarter of 2005 was 40% from the Americas, 30% from Europe and 30% from Asia, compared to 38%, 30% and 32%, respectively, for the first quarter of 2004. Revenue by sales channel for the first quarter of 2005 was 59% from original equipment manufacturers ("OEMs"), 35% from distributors and 6% from the retail channel, compared to 53%, 40% and 7%, respectively, for the first quarter of 2004. As a result of the Company's commitment to quality, reliability and flexibility, Western Digital was able to increase sales to OEM customers during the three months ended October 1, 2004 by 27% to $486.3 million, as compared to $382.6 million for the three months ended September 26, 2003.

Gross Margin

Gross margin percentage increased by 0.2% to 13.7% for the three months ended October 1, 2004 from 13.5% for the three months ended September 26, 2003. The improvement in gross margin percentage was primarily due to non-recurring charges of $18.1 million incurred in the first quarter of 2004 pertaining to the Read-Rite asset acquisition, partially offset by more competitive pricing conditions and an increase in the percentage of shipments to OEM customers, which typically have lower ASPs and gross margins.

Historically, seasonal demand trends have driven improving gross margins in the December quarter. However, given price competitiveness, slower growth in customer storage consumption needs and recent cautious commentary by other hard disk drive manufacturers, the Company currently expects its gross margin percentage for the December quarter to be roughly flat to that of the September quarter.

Operating Expenses

Total operating expenses, consisting of research and development (“R&D”) and selling, general and administrative (“SG&A”), were 9.9% of net revenue in the first quarter of 2005 as compared to 12.8% of net revenue in the first quarter of 2004.

R&D expense was $54.0 million for the three months ended October 1, 2004, a decrease of 15.2%, or $9.7 million, from the three months ended September 26, 2003. The decrease of $9.7 million in R&D expense was due to $25.6 million of IPR&D charges which occurred in the first quarter of 2004 related to the Read-Rite asset acquisition, partially offset by an increase in expenses related to head design, mobile and enterprise platform development, and employee incentive payments.

SG&A expense was $27.9 million for the three months ended October 1, 2004, an increase of $0.3 million, or 1.1% from the three months ended September 26, 2003. The increase of $0.3 million in SG&A expense was primarily due to an increase in employee incentive compensation programs and an expansion of sales headcount in emerging regions. The increase was partially offset by $1.4 million of non-recurring charges that occurred in the first quarter of 2004.

Income Tax Provision

Income tax provision was $0.8 million for the three months ended October 1, 2004 as compared to $0.2 million for the three months ended September 26, 2003. The increase in the income tax provision of $0.6 million in the first quarter of 2005 primarily related to higher overall earnings. Differences between the effective tax rate for the three months ended October 1, 2004 of 2.5%, as compared to the U.S. federal statutory rate, are primarily due to tax holidays in Malaysia and Thailand. These lower rates are in effect in Thailand through 2011 and in Malaysia through 2014.

Liquidity and Capital Resources

The Company had cash and cash equivalents of $405 million at October 1, 2004 and $378 million at July 2, 2004. Net cash provided by operating activities during the three months ended October 1, 2004 was $93 million as compared to net cash used for operating activities of $18 million for the three months ended September 26, 2003. Net cash flows from operating activities primarily resulted from net income excluding depreciation and amortization. This represents the Company’s principal source of cash. Operating cash flows included net cash provided by working capital of $34 million for the three months ended October 1, 2004, as compared to net cash used by working capital of $70 million for the same period last year. The improvement in net cash from working capital was primarily due to improved inventory and accounts payable management, partially offset by an increase in accounts receivable.

The Company’s working capital requirements depend upon the effective management of the Company’s cash conversion cycle. The cash conversion cycle for the first quarter of 2005, which consisted of 44 days sales outstanding (“DSO”) plus 19 days inventory outstanding (“DIO”) less 69 days payable outstanding (“DPO”), was negative six days for the three months ended October 1, 2004 as compared to positive one day for the three months ended September 26, 2003. The decrease in the cash conversion cycle was due to an increase in DPO’s offset by higher DSO’s resulting from changes in the Company’s mix of customers and less favorable intraquarter sales linearity. The Company expects its financial business model will continue to generate a negative cash conversion cycle going forward.

Net cash used in investing activities for the three months ended October 1, 2004 was $51 million as compared to $115 million for the same period in the prior year. During the three months ended October 1, 2004, cash used in investing activities consisted of net capital expenditures. The net cash used by investing activities for the first three months of 2004 consisted of $95 million for the Read-Rite asset acquisition and $20 million of net capital expenditures. The increase in net capital expenditures in the first quarter of 2005 was primarily a result of assets purchased to upgrade the Company's head manufacturing capabilities, increase desktop and mobile hard disk drive production capabilities and for the normal replacement of existing assets. For 2005, capital expenditures including assets acquired under capital leases are expected to increase to approximately $250 million from $150 million for 2004. The increase in capital expenditures is expected to consist primarily of investments in mobile hard disk drive manufacturing capacity, continued expansion of head manufacturing operations and IT infrastructure upgrades. The Company currently expects to use capital lease facilities to offset approximately $50 million of its 2005 capital expenditures.

Net cash used in financing activities for the three months ended October 1, 2004 was $15 million as compared to $25 million in net cash provided by financing activities for the same period in the prior year. The net cash used in financing activities in the three months ended October 1, 2004 consisted of $15 million used in the Company's stock repurchase program and $5 million in payments on outstanding debt, partially offset by $5 million received upon issuance of stock under employee plans. The net cash provided by financing activities for the three months ended September 26, 2003 consisted primarily of $11 million received upon issuance of common stock under employee plans and $14 million in net proceeds from long-term debt.

Capital Commitments

Line of Credit — The Company has a $125 million five-year credit facility ("Senior Credit Facility") that provides up to $75 million in revolving credit (subject to outstanding letters of credit and a borrowing base calculation) and a term loan of $50 million. Both the term loan and revolving credit facility mature on September 19, 2008, and are secured by the Company's accounts receivable, inventory, 65% of its stock in its foreign subsidiaries and other assets. At the option of the Company, borrowings bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin.

The Senior Credit Facility prohibits the payment of cash dividends on common stock and contains specific financial covenants. The Company is required to maintain an available liquidity level of $300 million at the end of each quarter. Available liquidity is defined as cash plus eligible trade receivables. As of October 1, 2004, the Company was in compliance with this covenant. Should the Company's available liquidity be less than $300 million, the Company would then be subject to minimum EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and capital expenditure limitations.

The $50 million term loan requires quarterly principal payments of $3 million beginning in October 2004. During the three months ended October 1, 2004, the Company made $3 million of quarterly principal payments. At October 1, 2004, the Company had $3 million in outstanding letters of credit, and $75 million was available for borrowing.

Purchase Orders — In the normal course of business to reduce the risk of component shortages, the Company enters into purchase orders with suppliers for the purchase of hard disk drive components used to manufacture the Company's products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, become payable upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. In some cases the Company may be obligated to pay for certain costs related to changes to, or cancellation of, a purchase order, such as costs incurred for raw materials or work in process. The Company has entered into long-term purchase agreements for components with certain vendors such as Komag, IBM, and Marvell. Future purchases under these agreements are not fixed and determinable as they depend on the Company's overall unit volume requirements and are contingent upon the prices, technology and quality of the supplier's products remaining competitive. See below under the heading "Risk Factors That May Affect Future Results" for a discussion of these commitments.

Forward Exchange Contracts — The Company purchases short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. See Part I, Item 3, under the heading “Disclosure About Foreign Currency Risk,” for the Company’s current forward exchange contract commitments.

Stock Repurchase Program — The Company announced a stock repurchase program on May 5, 2004. Under the program, the Company may purchase on the open market up to $100 million of its common stock depending on market conditions and other corporate considerations. Stock repurchases are expected to be funded by operating cash flow. Some of the repurchased shares will offset the dilutive impact of common stock issued under employee stock option and share purchase programs. During the first quarter of 2005, the Company repurchased 2.1 million shares of common stock at a total cost of $15.0 million. In addition, so far during its 2005 second quarter, the Company has repurchased 1.0 million shares of common stock at a cost of $8.3 million. Since the inception of the program, through November 5, 2004, the Company has repurchased 5.1 million shares for a total cost of $39.3 million. The Company may continue to opportunistically repurchase its stock as market conditions allow.

The Company believes its current cash and cash equivalents will be sufficient to meet its working capital needs through the foreseeable future. There can be no assurance that the Senior Credit Facility or lease financing will continue to be available to the Company. Also, the Company’s ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading “Risk Factors That May Affect Future Results.” The Company currently anticipates that it will continue to utilize its liquidity and cash flows to improve the efficiency and capability of its existing hard disk drive and head manufacturing operations.

Critical Accounting Policies

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

Revenue and Accounts Receivable

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

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

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

Warranty

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

Inventory

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

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

Litigation and Other Contingencies

The Company applies Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, the Company accrues loss contingencies when management, in consultation with its legal advisors, concludes that a loss is probable and reasonably estimable. (Refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 7 "Legal Proceedings" included in this Quarterly Report on Form 10-Q). The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management's estimates.

Deferred Tax Assets

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

Risk Factors That May Affect Future Results

Declines in average selling prices ("ASPs") in the hard disk drive industry adversely affect our operating results.

The hard disk drive industry has experienced declining ASPs. Although the rate of decline has moderated in recent years, there can be no assurance that this trend will continue. In fact, during the fourth quarter of 2004, ASPs decreased significantly. Our ASPs decline even further when competitors lower prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share.

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

Storage capacity of the hard disk drive, as manufactured by us, is determined by the number of disks and each disk's areal density. Areal density is a measure of the amount of data that can be stored on the recording surface of the disk. The higher the areal density, the more information can be stored on a single platter. Historically, we have been able to achieve a large percentage of cost reduction through increases in areal density. Increases in areal density mean that the average drive we sell has fewer heads and disks for the same capacity and, therefore, may result in a lower component cost. However, because increases in areal density have become more difficult in the hard disk drive industry, such increases may require increases in component costs. In addition, other opportunities to reduce costs may not continue at historical rates. Our inability to achieve cost reductions could adversely affect our operating results.

Our operating results depend on optimizing time-to-market and time-to-volume, overall quality, and costs of new and established products.

To achieve consistent success with our customers who manufacturer computers, systems and consumer electronic devices, we must balance several key attributes such as time-to-market, time-to-volume, quality, cost, service, price and a broad product portfolio. If we fail to:

- maintain overall quality of products on new and established programs,
- maintain competitive cost structures on new and established products,
- produce sufficient quantities of products at the capacities our customers demand while managing the integration of new and established technologies,
- develop and qualify new products that have changes in overall specifications or features that our customers may require for their business needs,
- obtain commitments from our customers to qualify new products, redesigns of current products, or new components in our existing products,
- qualify these products with key customers on a timely basis by meeting all of our customers' needs for performance, quality and features,
- maintain the manufacturing capability to quickly change our product mix between different capacities, form factors and spin speeds in response to changes in customers' product demands, or
- consistently meet stated quality requirements on delivered products,

our operating results would be adversely affected.

Product life cycles in the desktop hard disk drive market require continuous technical innovation associated with higher areal densities.

New products in the desktop hard disk drive market may require higher areal densities than previous product generations, posing formidable technical and manufacturing challenges. Higher areal densities require existing head technology to be improved or new technology developed to accommodate more data on a single disk. In addition, our introduction of new products during a technology transition increases the likelihood of unexpected quality concerns. Our failure to bring high quality new products to market on time and at acceptable costs may put us at a competitive disadvantage to companies that achieve these results. In addition, technology improvements may require us to reduce the price on existing products to remain competitive.

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

The rate of increase in areal density may be greater than the increase in our customers' demand for aggregate storage capacity. This could lead to our customers' storage capacity needs being satisfied with more lower-cost single-surface drives, thereby decreasing our revenue. As a result, even with increasing aggregate demand for storage capacity, our ASPs could decline, which could adversely affect our results of operations.

Product life cycles influence our financial results.

Product life cycles have been extending since the middle of calendar year 2002 due in large part to a decrease in the rate of hard disk drive areal density growth. However, there can be no assurance that this trend will continue. If longer product life cycles continue, we may need to develop new technologies or programs to reduce our costs on any particular product in order to maintain competitive pricing for such product. This may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results. If product life cycles shorten, it may be more difficult to recover the cost of product development before the product becomes obsolete. Our failure to recover the cost of product development in the future could adversely affect our operating results.

If we fail to qualify our products with our customers, they may not purchase any units of a particular product line, which would have a significant adverse impact on our sales.

We regularly engage in new product qualification with our customers. To be considered for qualification, we must be among the leaders in time-to-market with our new products. Once a product is accepted for qualification testing, failures or delays in the qualification process can result in our losing sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume computer manufacturers, most of which continue to consolidate their share of the PC market. If product life cycles continue to be extended due to a decrease in the rate of areal density growth, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could harm our competitive position. These risks are increased because we expect cost improvements and competitive pressures to result in declining gross margins on our current generation products.

A fundamental change in recording technology could result in significant increases in our operating expenses and could put us at a competitive disadvantage.

Currently the hard disk drive industry uses giant magnetoresistive head technology, which allows significantly higher storage capacities than the previously utilized thin-film head technology. However, the industry is developing new recording technologies that may enable greater recording densities than currently available using magnetoresistive head technology, including perpendicular, current perpendicular-to-plane, and tunneling junction technology. If the industry experiences a fundamental shift in recording technology, hard disk drive manufacturers would need to timely adjust their designs and processes to accommodate the new technology in order to remain competitive. As a result, we could incur substantial costs in developing new technologies, media, and tools to remain competitive. We may also become more dependent on suppliers to ensure our access to components that accommodate the new technology. These results would increase our operating costs, which may negatively impact our operating results.

Our current competitors or a future competitor may gain a technology advantage that we cannot match.

It may be possible for our current or future competitors to gain an advantage in product technology, manufacturing technology, or process technology, which may allow them to offer products or services that have a significant advantage over the products and services that we offer. Advantages could be in capacity, performance, reliability, serviceability, or other attributes. If we are unable to match these technology advantages due to the proprietary nature of the technology, limitations on process capability or other factors, we could be at a competitive disadvantage to those competitors.

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

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

The price of hard disk drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or attempting to gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. These factors, taken together, result in significant and rapid shifts in market share among the industry's major participants. In addition, product recalls can lead to a loss of market share, which could adversely affect our operating results.

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

Demand for our hard disk drives depends on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for hard disk drives in any given period. As a result, the hard disk drive market has experienced periods of excess capacity, which has led to intense price competition. If intense price competition occurs, we may be forced to lower prices sooner and more than expected, which could result in lower revenue and gross margins.

Changes in the markets for hard disk drives require us to develop new products and new technology.

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems. In its September 2004 report, Gartner forecasted that systems priced below $500 will be the fastest growing segment of the desktop computer market between calendar years 2003 through 2008. If we are not able to offer a competitively priced hard disk drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

The market for hard disk drives is also fragmenting into a variety of devices and products. Many industry analysts expect, as do we, that as communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics will continue to converge, and hard disk drives will be found in many consumer products other than computers. For example, although general market acceptance remains in its early stages, the use of hard disk drives has expanded into the game console market. Microsoft and Sony currently incorporate a hard disk drive into their video game systems. However, there can be no assurance that these companies will continue incorporating a hard disk drive into their game consoles, or that the market for these products will grow.

In addition, we expect that the consumer market for multi-media applications, including audio-video products incorporating a hard disk drive will continue to grow. However, because this market remains relatively new, although overall growth has been strong, accurate forecasts for future growth remain challenging. Moreover, some of the devices, such as personal video recorders and digital video recorders, may require attributes not currently offered in our products, which may result in a need to expend capital to develop new interfaces, form factors, technical specifications or hard disk drive features, increasing our overall operational expense. If we are not successful in using our hard disk drive technology and expertise to develop new products for the emerging consumer electronics market, or if we are required to incur significant costs in developing such products, it may harm our operating results.

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

To remain a significant supplier of hard disk drives, we will need to offer a broad range of hard disk drive products to our customers. We currently offer a variety of 3.5-inch form factor hard disk drives for the desktop computer market, and we recently began shipping 2.5-inch form factor hard disk drives for the mobile market. However, demand for hard disk drives may shift to products in smaller form factors, which we do not currently offer, but which some of our competitors offer. In addition, the enterprise and desktop PC industries are transitioning to higher speed interfaces such as SATA to handle higher data transfer rates. We currently offer SATA products; however, the transition of technology and the introduction of new products are challenging and create risks. While we continue to develop new products and look to expand into other applications such as consumer electronics products, the success of our new product introductions is dependent on a number of factors, including difficulties faced in manufacturing ramp, market acceptance, effective management of inventory levels in line with anticipated product demand, and the risk that our new products will have quality problems or other defects in the early stages of introduction that were not anticipated in the design of those products. If we fail to successfully develop and manufacture new products, customers may decrease the amount of our products that they purchase, and we may lose business to our competitors who offer these products or who use their dominance in the enterprise or mobile market to encourage sales of hard disk drives.

If we do not successfully expand into the 2.5-inch market, our business may suffer.

We recently began shipping 2.5-inch form factor hard disk drives for the mobile market. Although many of our customers who purchase 3.5-inch form factor hard disk drives also purchase the 2.5-inch form factor drives, the markets are characterized by different competitors, different sales channels and different overall requirements. If we are unable to adapt to these differences, we would have a competitive disadvantage to companies that are successful in this regard, and our business and financial results could suffer. In addition, if we incur significant costs in manufacturing and selling the 2.5-inch form factor hard disk drives, and if we are unable to recover those costs from sales of the products, then we may not be able to compete successfully in this market and our operating results may suffer.

We depend on our key personnel and skilled employees.

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

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

A majority of our revenue comes from a few customers. For example, during the first quarter of 2005, sales to our top 10 customers accounted for 52% of revenue, as compared to 53% of revenue for the first quarter of 2004. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us. Even if we successfully qualify a product with a customer, the customer generally is not obligated to purchase any minimum volume of products from us and is able to terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, or if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, our operating results would likely be harmed. In addition, if customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue.

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

Because we depend on a limited number of suppliers for certain hard disk drive components and manufacturing equipment, an increase in the cost of such components or equipment, an extended shortage of required components or equipment, failure of a key supplier’s business process, or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could significantly harm our operating results. A number of the components used by us are available from only a single or limited number of qualified outside suppliers, and may be used across multiple product lines. There is also continued attrition and consolidation in our supplier base. In addition, some of the components (or component types) used in our products are used in other devices, such as mobile telephones and digital cameras. If there is a significant simultaneous upswing in demand for such a component (or component type) from several high volume industries, resulting in a supply reduction, or a component is otherwise in short supply, or if a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. In addition, if a component becomes unavailable, we could suffer significant loss of revenue.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying these components. As a result, we may be subject to cancellation charges if we cancel orders, which may occur when we make technology transitions.

In some cases, not only are we dependent on a limited number of suppliers, but we also have entered into contractual commitments that require us to buy a substantial number of components from certain suppliers. For example, we have entered into a volume purchase agreement with Komag for the purchase of media components, and volume purchase agreements with IBM and Marvell for the purchase of read channel devices. Our future operating results may depend substantially on Komag’s ability to timely qualify their components in our programs, and each of Komag’s, IBM’s, and Marvell’s ability to supply us with these components in sufficient volume to meet our production requirements. A significant disruption in any of these suppliers’ ability to manufacture and supply us with the components could harm our operating results.

In addition, certain equipment we use in our manufacturing or testing processes is available only from a limited number of suppliers. Some of this equipment uses materials that at times could be in short supply. If these materials are not available, or are not available in the quantities we require for our manufacturing and testing processes, our ability to manufacture our products could be impacted, and we could suffer significant loss of revenue.

Some of our customers have adopted a subcontractor model that increases our credit risk and could result in an increase in our operating costs.

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies that provide manufacturing services to our OEM customers. Because these subcontractors are generally not as well capitalized as our direct OEM customers, this subcontractor model exposes us to increased credit risks. Our agreements with our OEM customers may not permit us to increase our product prices to alleviate this increased credit risk. Any credit losses we may suffer as a result of this increased risk would increase our operating costs, which may negatively impact our operating results.

If we are unable to timely and cost-effectively develop heads with leading technology and overall quality, our ability to sell our products may be significantly diminished, which could materially and adversely affect our business and financial results.

As a result of our head manufacturing operations, we are developing and manufacturing a substantial portion of the heads used in the hard disk drives we manufacture. Consequently, we are more dependent upon our own development and execution efforts and less able to take advantage of head technologies developed by other head manufacturers. There can be no assurance, however, that we will be successful in timely and cost-effectively developing and manufacturing heads for products using perpendicular recording technology, or other future technologies. We also may not achieve acceptable manufacturing yields using such technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the heads we manufacture. In addition, we may not have access to external sources of supply without incurring substantial costs. If we fail to develop new technologies in a timely manner, or if we encounter quality problems with the heads we manufacture, and if we do not have access to external sources of supply that incorporate new technologies, we would have a competitive disadvantage to companies that are successful in this regard, and our business and financial results could suffer.

We experience additional costs and risks in connection with our head manufacturing operations.

Our vertical integration of head manufacturing has resulted in a fundamental change in our operating structure, as we are now manufacturing heads for use in the hard disk drives we manufacture. Consequently, we carry a higher percentage of fixed costs than assumed in our prior financial business model. If the overall level of production decreases for any reason, our head manufacturing assets may face under-utilization that may impact our results of operations. We are therefore subject to additional risks related to overall asset utilization, including the need to operate at high levels of utilization to drive competitive costs, and the need for assured supply of components, especially hard disk drive media, that is optimized to work with our heads.

In addition, we may incur additional risks, including:

- we may not have sufficient head sources in the event that we are unable to manufacture a sufficient supply of heads to satisfy our needs;
- third party head suppliers may not work with us or may not work with us on the same terms and conditions we have previously enjoyed;
- we may be subject to claims that our manufacturing of heads may infringe certain intellectual property rights of other companies; and
- it may be difficult and time-consuming for us to locate suitable manufacturing equipment for our head manufacturing processes and replacement parts for such equipment.

If we do not adequately address the challenges related to our head manufacturing operations, our ongoing operations could be disrupted, resulting in a decrease in our revenue or profit margins and negatively impacting our operating results.

To develop new products, we must maintain effective partner relationships with our major component suppliers.

Under our business model, we do not manufacture any of the component parts used in our hard disk drives, other than heads as a result of our acquisition of head manufacturing assets in July 2003. As a result, the success of our products depends on our ability to gain access to and integrate parts that are "best in class" from reliable component suppliers. To do so, we must effectively manage our relationships with our major component suppliers. We must also effectively integrate different products from a variety of suppliers, each of which employs variations on technology, which can impact, for example, feasible combinations of heads and media components. In August 2003 we settled litigation we were engaged in with Cirrus Logic, Inc., a supplier who previously was the sole source of read channel devices for our hard disk drives. As a result of the disputes that gave rise to the litigation, our profitability was at risk until another supplier's read channel devices could be designed into our products. Similar disputes with other strategic component suppliers could adversely affect our operating results.

Our failure to accurately forecast demand for our products could adversely affect our business and financial results.

Although we receive forecasts from our customers, they are not obligated to purchase the forecasted amounts. We consider these forecasts in determining our component needs and our inventory requirements. If we fail to accurately forecast our customers' product demands, we may have inadequate or excess inventory of our products or components, which could adversely affect our operating results.

Our failure to timely and efficiently transition our enterprise resource planning software from the version we currently use to a new version could adversely affect our business and financial results.

We use enterprise resource planning software in the operation of our business and maintenance of business and financial data related to our daily operations. We are in the process of upgrading this software and we anticipate transitioning to new enterprise resource planning software during the next year. We may experience unexpected difficulties in transitioning to the new software, including difficulties related to the failure or inefficient operation of the new software. Such difficulties or failures could result in our inability to access business and financial information stored on the system or the loss of such information. Any inability to access, or loss of, such information could affect our daily operations, including our ability to ship products and invoice our customers, which could have a significant adverse impact on our business, financial condition and results of operations.

We have two high-volume hard-drive manufacturing facilities and two facilities supporting our head manufacturing operations, which subjects us to the risk of damage or loss of any of these facilities.

Our hard disk drives are manufactured in facilities in Malaysia and in Thailand. In addition, we operate a head wafer fabrication and research and development facility in Fremont, California and a slider fabrication, head gimbal assembly, head stack assembly, and research and development facility in Thailand. A fire, flood, earthquake or other disaster, condition or event that adversely affects any of these facilities or our ability to manufacture could result in a loss of sales and revenue and harm our operating results.

Terrorist attacks may adversely affect our business and operating results.

The terrorist attacks on the United States on September 11, 2001, the United States-led military response to counter terrorism and the continued threat of terrorist activity and other acts of war or hostility, including the war in Iraq, have created uncertainty in the financial and insurance markets and have significantly increased the political, economic and social instability in some of the geographic areas in which we operate. Further acts of terrorism, either domestically or abroad, could create further uncertainties and instability. To the extent this results in disruption or delays of our manufacturing capabilities or shipments of our products, our business, operating results and financial condition could be adversely affected.

Manufacturing our products abroad subjects us to numerous risks.

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

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

Because we manufacture our products abroad, our operating costs are subject to fluctuations in foreign currency exchange rates. Further fluctuations in the exchange rate of the Thai Baht, a floating currency, or a determination by the Malaysian government to repeg the Malaysian Ringgit or convert it to a floating currency, could result in an increase in our operating costs, which may negatively impact our operating results.

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

There has been a trend toward a weakening U.S. dollar relative to most foreign currencies. If this trend continues the U.S. dollar equivalents of unhedged manufacturing costs could increase because a significant portion of our production costs are foreign-currency denominated. Conversely, there would not be an offsetting impact to revenues since revenues are substantially U.S. dollar denominated.

Environmental costs could harm our operating results.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, including various European Union member countries. For example, the European Union has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (“RoHS”). RoHS prohibits the use of certain substances, including lead, in certain products, including hard disk drives, put on the market after July 1, 2006. Similar legislation may be enacted in other locations where we manufacture or sell our products. We will need to ensure that we comply with such laws and regulations as they are enacted, and that our component suppliers also timely comply with such laws and regulations. If we fail to timely comply with such legislation, our customers may refuse to purchase our products, which would have a materially adverse affect on our business, financial condition and results of operations.

We could incur substantial costs in connection with our compliance with such environmental laws and regulations, and we could also be subject to governmental fines and liability to our customers if we were to violate these laws. If we have to make significant capital expenditures to comply with environmental laws, or if we are subject to significant capital expenses in connection with a violation of these laws, our financial condition or operating results could suffer.

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

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

We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would likely increase our costs and harm our operating results.

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

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. Despite safeguards, to the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain necessary legal protection. Also, the laws of some foreign countries may not protect our intellectual property to the same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely upon employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which might harm our operating results.

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

We generally warrant our products for one to five years. We test our hard disk drives in our manufacturing facilities through a variety of means. However, there can be no assurance that our testing will reveal latent defects in our products, which may not become apparent until after the products have been sold into the market. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement and, if a product recall occurs during the product's warranty period, we may be required to replace the defective product. In addition, a product recall may damage our relationship with our customers, and we may lose market share with our customers, including our OEM customers.

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

In addition, some of our competitors may offer more favorable warranty terms on certain products that compete with our products. If we change our warranty policy in response to competitive pressures, it could result in increased warranty expenditures, which could negatively affect our operating results.

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

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

- the timing of orders from and shipment of products to major customers;
- our product mix;
- changes in the prices of our products;
- manufacturing delays or interruptions;
- acceptance by customers of competing products in lieu of our products;
- variations in the cost of components for our products;
- limited access to components that we obtain from a single or a limited number of suppliers, such as Komag, IBM, Marvell, ALPS Electric Co., Ltd., STMicroelectronics, SAE Magnetics Ltd., a subsidiary of TDK Corporation, and Texas Instruments;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PCs often due to technological advances; and
- availability and rates of transportation.

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

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

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

The market price of our common stock is volatile.

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

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

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

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

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

Due to the risks described herein, in the future we may be unable to maintain adequate financial resources for capital expenditures, expansion or acquisition activity, working capital and research and development. We have a credit facility, which matures on September 19, 2008, and planned capital lease facilities. If we decide to increase or accelerate our capital expenditures or research and development efforts, or if results of operations do not meet our expectations, we could require additional debt or equity financing. However, we cannot ensure that additional financing will be available to us or available on acceptable terms. An equity financing could also be dilutive to our existing stockholders.

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

Disclosure About Foreign Currency Risk

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

As of October 1, 2004, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except weighted average contract rate):

	October 1, 2004		
	Contract Amount	**Weighted Average Contract Rate***	**Unrealized Gain (Loss)**
Foreign currency forward contracts:			
Thai Baht	$85.3	41.01	$0.2
Euro	$ 2.7	0.81	—
British Pound Sterling	$ 1.5	0.56	—

* Expressed in units of foreign currency per dollar.

During the three months ended October 1, 2004 and September 26, 2003, total realized transaction and forward exchange contract currency gains and losses were not material to the consolidated condensed financial statements.

Disclosure About Other Market Risks

Variable Interest Rate Risk

At the option of the Company, borrowings under the Senior Credit Facility would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin. If LIBOR or the base rate increases, the Company's interest payments could also increase. At October 1, 2004 the Company had a $50 million term loan outstanding under the Senior Credit Facility. A one percent increase in the variable rate of interest on the Senior Credit Facility would increase interest expense by approximately $0.5 million annually.

Item 4. *CONTROLS AND PROCEDURES*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the Company would meet its disclosure obligations.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

Refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 7 “Legal Proceedings” included in this Quarterly Report on Form 10-Q which is hereby incorporated by reference.

Item 2. *UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

(c) The following table provides information about repurchases by the Company of its common stock during the quarter ended October 1, 2004:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Value of Shares that May Yet be Purchased Under the Program(1)
July 3, 2004 — July 30, 2004	—	$ —	—	$84,102,250
July 31, 2004 — August 27, 2004	2,123,100	$7.03	2,123,100	$69,186,661
August 28, 2004 — October 1, 2004	—	$ —	—	$69,186,661
Total	2,123,100	$7.03	2,123,100	$69,186,661

(1) On May 5, 2004, the Company announced that its Board of Directors had authorized the Company to repurchase up to $100 million of the Company’s common stock in open market transactions. The program does not have an expiration date.

The Company’s $125 million credit facility prohibits the Company from paying cash dividends on its common stock.

Item 5. *OTHER INFORMATION*

On November 5, 2004, Western Digital Technologies, Inc. (“WDT”) and the Company entered into an agreement with David C. Fetah. Pursuant to the agreement, Mr. Fetah has assumed a position with WDT as a Special Advisor to the Chairman and Chief Executive Officer of the Company at an annual compensation of $325,000 plus certain benefits, and has, effective October 8, 2004, resigned his position as Vice President of Human Resources & Administration, as an officer of WDT and the Company, and as an officer from any of its and their subsidiaries or affiliates. The term of Mr. Fetah’s employment as Special Advisor shall end on the earlier of (i) the date on which Mr. Fetah accepts other full-time employment, (ii) December 31, 2005, or (iii) Mr. Fetah’s death. In the event Mr. Fetah has not accepted other full-time employment by December 31, 2005, the term is extended and shall end on the earlier of February 28, 2006, Mr. Fetah’s death or a date prior to February 28, 2006 on which Mr. Fetah has accepted other full-time employment. Mr. Fetah will, subject to the terms of the agreement, receive a Special Advisor Transition Bonus in the amount of $100,000 to be paid on February 15, 2005. Mr. Fetah will, subject to the terms of the agreement, also receive a Special Advisor Completion bonus in the amount of $150,000 after his employment as Special Advisor terminates. In the event Mr. Fetah accepts other full-time employment on or before December 31, 2005, Mr. Fetah will receive a lump sum amount equal to sixty-five percent of the compensation he would have received for services performed between his termination date and December 31, 2005. A copy of the agreement is filed as an exhibit to this Quarterly Report on Form 10-Q.

Item 6. *EXHIBITS*

Exhibit No.	Description
10.29	Letter agreement, dated November 5, 2004, by and among Western Digital Corporation, Western Digital Technologies, Inc. and David C. Fetah†*
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†

† New exhibit filed with this Report.

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

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SIGNATURES

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

WESTERN DIGITAL CORPORATION
Registrant

/s/ Stephen D. Milligan

Stephen D. Milligan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Joseph R. Carrillo

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

Date: November 8, 2004

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Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, California 92630

Tel: 949.672.7000
FAX: 949.672.7837

Matthew E. Massengill
Chairman and Chief Executive Officer

November 5, 2004

Mr. David C. Fetah
30378 Paseo del Valle
Laguna Niguel, California 92677

Dear David:

This letter, when signed by you, constitutes the agreement (the "Agreement") relative to your resignation as a officer of Western Digital Technologies, Inc. ("WDT") and Western Digital Corporation ("WDC") (collectively the "Company"), your appointment to serve as a Special Advisor to the Chairman of the Company, and the settlement of any remaining obligations which the Company may have to you arising out of your employment as an officer of the Company. In consideration for the covenants and releases contained herein, you and the Company agree as follows:

1. **Resignation.** While your status as an employee of WDT will continue on the terms and for the period set forth in this Agreement, you hereby resign your position as Vice President Human Resources & Administration, as an officer of WDT and WDC, and as an officer from any of its and their subsidiaries or affiliates, effective October 8, 2004 (the "Transition Date"). Except as expressly provided herein, all benefits and perquisites of employment shall cease as of the Transition Date.

2. **Appointment As Special Advisor To The Chairman**.

   (a) **Employment.** Effective as of the Transition Date, your position will be Special Advisor to the Chairman and Chief Executive Officer of WDC (the "Chairman").

   (b) **Term.** The term of your employment as Special Advisor shall begin October 9, 2004 and shall end on the earlier of (i) the date you accept other full-time employment, (ii) December 31, 2005, or (iii) your death, at which time your employment with WDT and any other relationship with the Company or any of its subsidiaries or affiliates shall terminate, and the Company shall have no further payment obligations to you except as expressly set forth herein. Notwithstanding the foregoing, in the event that you have not found other full-time employment by December 31, 2005, the term of your employment as Special Advisor will be extended and shall end on the earlier of (i) February 28, 2006, (ii) your death, (iii) or a date prior to February 28, 2006 on which you have accepted other full-time employment. As used herein, the "Employment Period" shall refer to that period of time from October 9, 2004 until your employment with WDT terminates pursuant to the terms of this Agreement.

(c) **Duties.** During the Employment Period, you agree to provide services to the Chairman, as requested by the Chairman, related to your previous areas of responsibility at the Company or Special Projects as assigned by the Chairman. You and the Company agree that as a Special Advisor to the Chairman and employee of the Company, you shall not have any responsibility or authority to supervise or manage Company employees, or to act on behalf of, represent or bind the Company in any manner, unless requested to do so in writing by the Chairman. The Company agrees to provide you administrative support as required to fulfill the projects or duties assigned to you by the Chairman, including secretarial services, use of an office, use of office and mobile phones, and use of certain Company technology systems such as electronic mail. During the Employment Period, your Company phone number and email address will not be changed unless the Company changes email addresses or phone numbers for its Lake Forest facilities.

(d) **Compensation.** During the Employment Period, you will be paid (i) a salary at an annual rate of $325,000 and (ii) a Variable Performance Award of $1,000 per month, each of which shall be paid through the Company's current bi-weekly payroll process. You agree to have tax withholding and other payroll deductions made at the present rates, subject to any changes you wish to make in accordance with Company policies. You further agree that the payments provided for herein supersede, and shall be made in lieu of, any other severance payments under any other Company severance pay plan or agreement, including but not limited to any Change of Control Severance Plan or agreements.

(e) **Special Advisor Transition Bonus.** In the event you perform the Special Advisor services set forth herein, the Company agrees that you shall receive a Special Advisor Transition Bonus. Such bonus will be in the amount of $100,000 and shall be paid on or before February 15, 2005. You agree that such Special Advisor Transition Bonus is in lieu of any Incentive Compensation Plan ("ICP") bonus you may have been eligible for under the Company's ICP at any time, and that you shall not be entitled to or eligible to receive any ICP bonus or other bonus attributable to your employment prior to the Transition Date.

3. Special Advisor Completion Bonus. In the event you perform the Special Advisor services set forth in Paragraph 2 above through the Employment Period, you shall receive

$150,000 as a Special Advisor Completion Bonus, provided that (i) you have executed a Supplemental Release in the form attached hereto as Attachment B, and (ii) you have not revoked such agreement during the revocation period. Subject to the contingency set forth above, such Special Advisor Completion Bonus shall be paid in a lump sum no later than forty-five (45) days after the termination of the Employment Period.

4. **Acceleration.** In the event you accept other full-time employment before February 28, 2006, you must notify the Chairman of this event within 7 days of your acceptance of such employment. In the event you have complied with the terms of this Agreement and your employment as Special Advisor terminates on or before December 31, 2005 by reason of your acceptance of other full-time employment as provided for in Paragraph 2(b)(i) herein (the "Termination Date") and you execute a Supplemental Release in the form attached hereto as Attachment B and do not revoke such agreement during the revocation period, the following will occur:

   (a) You will be paid, within forty-five (45) days after the Termination Date, an amount equal to sixty-five percent (65%) of the salary and Variable Performance Award you would have received under this Agreement for services performed between the Termination Date and December 31, 2005; and

   (b) In the event you have not been paid the Special Advisor Transition Bonus set forth in Paragraph 2(e) as of the Termination Date, such payment will be paid at the earlier of (i) within forty-five (45) days of the Termination Date, or (ii) February 15, 2005.

5. **Non-Competition**. You acknowledge that you have in your capacity as an executive of the Company been given access to, and possess knowledge of, valuable proprietary and confidential information of the Company. You acknowledge that it would be very difficult for you to provide work, advice, consulting, or other services to a competitor of the Company, whether as an employee, independent contractor, adviser, volunteer, director or in any other capacity, for any individual, partnership, corporation, or other business entity, without using, disclosing, evaluating or relying upon the Company's proprietary and confidential information. Accordingly, you agree that during the Employment Period you will not directly or indirectly, whether for your own account or as an employee, director, consultant or advisor, provide services to any business or engage in any business which at the time of commencement of such services is, or is expected to be, competitive with the Company's or any of its subsidiaries' product lines or business activities, unless you obtain the prior written consent of the Company's Chairman. This includes but is not limited to the following businesses or entities: (i) Maxtor Corporation; (ii) Seagate Technologies; (iii) Fujitsu Hard Drive Division; (iv) Samsung Hard Drive Division; (v) Toshiba, and (vi) Hitachi Global Storage Systems.

6. **Non-Solicitation of Employees**. You agree that during the Employment Period you will not directly or indirectly solicit any individuals to leave the Company's (or any of its subsidiaries') employ for any reason or interfere in any other manner with the employment

relationships at the time existing between the Company (or any if its subsidiaries) and its current or prospective employees.

7. **Non-Solicitation of Business Relationships**. You agree that during the Employment Period you will not induce or attempt to induce any customer, supplier, distributor, licensor, licensee or other business relation of the Company (or any of its subsidiaries) to cease doing business with the Company (or any of its subsidiaries) or in any way interfere with the existing business relationship between any such customer, supplier, distributor, licensor, licensee or other business relation and the Company (or any of its subsidiaries).

8. **Irreparable Harm**. You agree that the Company would be irreparably harmed by any breach or threatened breach of the agreements in Paragraphs 5, 6, 7, 9 and 13 and that, therefore, the Company shall be entitled to an injunction prohibiting you from any breach or threatened breach of such agreements.

9. **Confidential Information**. When you joined the Company, you signed an Employee Agreement setting forth your obligations to the Company during and after your employment. A copy of your Employee Agreement is being delivered to you separately and is incorporated herein by reference. In your Employee Agreement, you agreed that you will not, at any time, whether during or subsequent to the term of your employment with the Company in any fashion, forth or manner, unless specifically consented to in writing by the Company, either directly or indirectly, use or divulge, disclose, or communicate to any person, firm, or entity or corporation, in any manner whatsoever, any Confidential Information (as defined in the Employee Agreement) of any kind, nature or description concerning any matters affecting or relating to the business of the Company. You understand and agree that in the course of your employment with the Company, you have acquired confidential information and trade secrets concerning the Company's operations, its future plans and its methods of doing business. You understand and agree it would be extremely damaging to the Company if you disclosed such information to a competitor or made it available to any other person or company. You understand and agree that such information has been divulged to you in confidence, and you understand and agree that you will keep such information secret and confidential unless disclosure is required by court order or otherwise by compulsion of law. In view of the nature of your employment and the information and trade secrets which you have received during the course of your employment, you also agree that the Company would be irreparably harmed by any violation, or threatened violation of the agreements in this Paragraph and that, therefore, the Company shall be entitled to an injunction prohibiting you from any violation or threatened violation of such agreements.

10. **Stock Options.**

   (a) **Vesting.** From the Transition Date through December 31, 2004, stock options previously granted to you under the Company's Amended and Restated Employee Stock Option Plan (collectively, the "Options") will continue to vest in accordance with their terms. As of January 1, 2005, any unvested Options shall be considered forfeited and cancelled whether or not your services under this Agreement continue after that date. In addition, (i) in the event the Termination Date occurs on or prior to December 31, 2004, the Options will cease vesting as of the Termination Date and any unvested Options shall be considered forfeited and cancelled, (ii) in the event of your death on or prior to December 31, 2004, the Options will cease vesting as of the date of your death, and any unvested Options shall be considered forfeited and cancelled, and (iii) in the event you voluntarily resign your employment as Special Advisor on or prior to December 31, 2004, the Options will cease vesting as of such resignation date and any unvested Options shall be considered forfeited and cancelled.

(b) **Exercise of Stock Options.** Any exercise of vested stock options previously granted to you must be in accordance with the provisions of the applicable stock option plan(s), your individual stock option agreements, and the procedures relating to exercise of stock options as may be established by the Compensation Committee of the Board of Directors from time to time. You will have up to ninety (90) days following the earlier of the Termination Date or December 31, 2004 to exercise your vested options, except that, in the event of your death, the options shall be exercisable as of the date of your death in accordance with their terms. To the extent the options are non-qualified options under the federal income tax laws, you shall recognize compensation income in connection with your exercise of those options, and you agree to satisfy all applicable withholding taxes associated with each such exercise.

(c) **Breach of Certain Covenants.** Notwithstanding anything to the contrary in this Agreement, if you breach any of your covenants set forth in Paragraphs 5, 6, 7, 9 or 13 hereof, (i) any unexercised Options shall be deemed immediately canceled and shall no longer be exercisable, and (ii) WDC and/or WDT shall have the right to recover any profits realized by you as a result of the exercise of Options or of shares received pursuant to the exercise of Options during the six month period prior to the date of any such breach, as determined by the Board of Directors.

11. Benefits. The status of your current employee welfare and pension benefits is set forth on Attachment "A" hereto and hereby made a part hereof. During the Employment Period, you will continue to receive employee welfare and pension benefits accorded to employees generally and other executives in comparable pay grades. If, during the Employment Period, any such benefits are discontinued or adjustments are made to benefits of employees generally, or of executives in comparable pay grades, then such discontinuation of or adjustments to benefits will apply equally to the benefits provided to you hereunder.

12. Vacation. Notwithstanding anything to the contrary in the Company's policies or this Agreement, you will not accrue vacation during the Employment Period. All accrued and unused vacation earned prior to the Transition Date will be paid to you on or before January 3, 2005. Although you will not accrue vacation during the Employment Period, you may take time off and none of the vacation benefits you accrued prior to the Transition Date will be reduced in such event.

13. **Confidentiality and Communications.** You agree to hold the terms of this Agreement in confidence, except to the extent that disclosures may be required by government regulations or judicial process or to receive tax, legal or financial advice.

14. **Employment Verification and References.** You agree that you shall direct all requests for employment verification or references to the Company's Chairman. In the event prospective employers or financial institutions seek verification of your employment during the Employment Period, the Company will verify that you are an employee of WDT with an annual salary of $325,000. In the event prospective employers seek to verify your employment history, the Company will confirm that you held the position of Vice President of Human Resources and Administration through October 8, 2004, and that you voluntarily resigned your position and agreed to stay on as a Special Advisor to the Chairman during the term set forth in this Agreement.

15. **Incentive Compensation Plan (ICP)**. During the Employment Period, you are not eligible to participate in the ICP and shall have no right or entitlement to any ICP or other bonus.

16. **Western Digital Corporation 401(k) Plan.** Any distributions to which you are entitled from the Savings and Profit Sharing Plan will be made to you in accordance with the terms of that plan.

17. **Indemnification and Assistance.**

   (a) **Indemnification.** Your rights and obligations with respect to indemnification shall be governed by: (i) that Certain Indemnity Agreement entered into as of September 25, 2002 by and between WDC and David C. Fetah, and (ii) that Certain Indemnity Agreement entered into as of September 25, 2002 by and between WDT and David C. Fetah.

   (b) **Assistance.** During the Employment Period and thereafter, you agree to make yourself available to respond to inquiries by the Company regarding management, regulatory, and legal activities of which you acquired knowledge during your employment with the Company. You agree to make yourself available, without the requirement of being subpoenaed, to confer with counsel at reasonable times and locations and upon reasonable notice concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the Company during your employment with the Company. You further agree to submit to deposition and/or testimony in accordance with the laws of the forum involved concerning any knowledge you have or may have with respect to actual and/or potential disputes arising out of the activities of the Company during your employment with the Company.

18. Release of Claims. Except for those obligations created by or arising out of this Agreement, you, on your own behalf and behalf of your descendants, dependents, heirs, executors, administrators, assigns and successors, and each of them, hereby acknowledge full and complete satisfaction of and release and discharge and covenant not to sue WDT or WDC, its and their divisions, subsidiaries, parents, or affiliated partnerships and corporations, past and present, and each of them, as well as its and their directors, officers, shareholders, partners, representatives, attorneys, assignees, successors, agents and employees, past and present, and each of them (individually and collectively, “Releasees”), from and with respect to any and all claims, wages, agreements, obligations, demands and causes of action, known or unknown, suspected or unsuspected (collectively, “Claims”) resulting from any act or omission by or on the part of Releasees committed or omitted prior to the date of this Agreement, including, without limiting the generality of the foregoing:

(a) any and all Claims relating to or arising from your employment or any other relationship with, interest in or separation from the Company including, without limiting the generality of the foregoing, any claim for severance pay, profit sharing, bonus or similar benefit, sick leave, pension, retirement, vacation pay, life insurance, health or medical insurance or any other fringe benefit, or disability;

(b) any and all Claims relating to, or arising from, your right to purchase, or actual purchase of shares of stock of the Company or any subsidiary of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all Claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; invasion of privacy; false imprisonment; and conversion;

(d) any and all Claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and the California Labor Code;

(e) any and all Claims for violation of the federal or any state constitution, or any federal, state or local law, regulation or ordinance;

(f) any and all Claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all Claims for attorneys' fees and costs.

Except for those obligations created by or arising out of this Agreement, the Company hereby releases and discharges and covenants not to sue you from and with respect to any and all claims, agreements, obligations, demands and causes of action, known or unknown, suspected or unsuspected (collectively "Claims") resulting from any act or omission by or on your part committed or omitted prior to the date of this Agreement, provided, however, that such release of you shall not extend to any claims, known or unknown, suspected or unsuspected, against you which arise out of facts which are finally adjudged by a court of competent jurisdiction to be a willful breach of fiduciary duty or a crime under any federal, state, or local statute, law, ordinance or regulation.

You and the Company agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete general release. This release does not extend to any obligations incurred under this Agreement.

19. **Acknowledgment of Waiver of Claims under ADEA**. You acknowledge that you are waiving and releasing any rights you may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. You acknowledge that the consideration given for this waiver and release Agreement is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised by this writing that (a) you should consult with an attorney prior to executing this Agreement; (b) you have twenty-one (21) days within which to consider this Agreement; (c) you have seven (7) days following the execution of this Agreement by you to revoke the Agreement; and (d) this Agreement shall not be effective until the revocation period has expired. Any revocation should be in writing and delivered in accordance with the notice provisions of Paragraph 26 hereof by close of business on the seventh day from the date that you sign this Agreement.

20. **Civil Code Section 1542**. This Agreement is intended to be effective as a general release of and bar to all Claims as stated above. Accordingly, you and the Company hereby expressly waive any rights and benefits conferred by Section 1542 of the California Civil Code, which provides:

> "A GENERAL RELEASE DOES NOT EXTEND TO A CLAIM 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."

You and the Company acknowledge that you may later may discover Claims or facts in addition to or different from those which you now knows or believe to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected its terms. Nevertheless, you and the Company hereby waive any Claims that might arise as a result of such different or additional Claims or facts.

21. Remedies in Event of Future Dispute.

(a) **Arbitration.** Except as provided in Subparagraph (b) below, in the event of any dispute, controversy or claim between you and the Company arising from or relating to this Agreement, its breach, any matter addressed by this Agreement, and/or your employment with the Company through the Employment Period, you and the Company agree to submit such claim to final and binding confidential arbitration to be conducted in Orange County, California by JAMS/Endispute in accordance with the then existing JAMS/Endispute Arbitration Rules and Procedures for Employment Disputes. In the event of such an arbitration proceeding, you and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS/Endispute panel of arbitrators. If you and the Company cannot agree on an arbitrator, the Administrator of JAMS/Endispute shall appoint an arbitrator. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by either you or the Company. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof.

(b) **Injunctive Relief.** You or the Company may, but need not, seek provisional injunctive relief in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the Arbitrator.

(c) **Attorneys' Fees and Costs.** The prevailing party in any such arbitration or court proceeding shall be entitled to recover from the losing party his or its reasonable attorneys' fees, costs and expenses incurred in connection with the arbitration or court proceeding.

22. Assignment. You shall not assign any of your rights and/or obligations under this Agreement and any such attempted assignment will be void. This Agreement shall be binding upon and inure to the benefit of your heirs, executors, administrators, or other legal representatives and their legal assigns.

23. Waiver. No waiver of any breach of any term or provision of this Agreement shall be construed to be, or shall be, a waiver of any other breach of this Agreement. No waiver shall be binding unless in writing and signed by the party waiving the breach.

24. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to you under the terms of this Agreement. You agree and understand that you are responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon.

25. Costs. Except as provided in Paragraph 21 hereof, you and the Company shall each bear your own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

26. Notices. All notices required by this Agreement shall by given in writing either by personal delivery or by first class mail, return receipt requested. Notices shall be addressed as follows:

To Western Digital:	Western Digital Corporation 20511 Lake Forest Drive Lake Forest, CA 92630-7741 Attention: Vice President, Corporate Law
To Mr. David C. Fetah:	Mr. David C. Fetah 30378 Paseo del Valle Laguna Niguel, California 92677

or in each case to such other address as you or the Company shall notify the other. Notice given by mail shall be deemed given five (5) days following the date of mailing.

27. Entire Agreement. This Agreement, including Attachments to this Agreement and other agreements referenced in this Agreement, represents the entire agreement and understanding between you and the Company concerning the subject matter herein. The parties intend it as a complete and exclusive statement of the terms of their agreement. It supersedes and replaces all prior negotiations and agreements, proposed or otherwise, whether written or oral, between the parties concerning the subject matters. This is a fully integrated document. This does not supercede any written agreement between you and the Company concerning stock options in Company or the purchase and payment for stock of the Company, except that you agree that Sections 10(a) and 10(b) of this Agreement shall govern with respect to the termination of your options.

28. No Oral Modification. This Agreement may only be amended by a writing signed by you and the Chairman or the General Counsel of the Company.

29. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

30. Effective Date. This Agreement is effective upon execution by both you and the Company and the expiration of the revocation period set forth in Paragraph 19 above.

31. **Counterparts**. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of you and the Company.

32. **Voluntary Execution of Agreement**. This Agreement is executed by you voluntarily and without any duress or undue influence on the part or behalf of the Company, with the full intent of releasing all claims. You acknowledge that:

(a) you have read this Agreement;

(b) you have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of your own choice or that you have voluntarily declined to seek such counsel;

(c) you understand the terms and consequences of this Agreement and of the releases it contains; and

(d) you are fully aware of the legal and binding effect of this Agreement.

Please indicate your agreement to the above by signing below.

Very truly yours,

/s/ Matthew E. Massengill
Matthew E. Massengill
Chairman and Chief Executive Officer
Western Digital Corporation and
Western Digital Technologies, Inc.

WESTERN DIGITAL CORPORATION and WESTERN DIGITAL TECHNOLOGIES, INC.

By: /s/ M. E. Massengill　　　　Dated: 11-5-04

I have read and agree to all terms and conditions as outlined above.

/s/ David C. Fetah　　　　Dated: 11/5/04
David C. Fetah

ATTACHMENT A

SCHEDULE OF CURRENT BENEFITS

1. Flex Benefit Allowance of $495.85 per pay period.

2. Employee Stock Purchase Plan (“ESPP”) participation.

3. Financial Planning reimbursement to a maximum of $5,000 per year.

4. Reimbursement of medical expenses under the Executive Medical program to a maximum of $5,000 per year.

5. 401(k) participation and employer matching contributions pursuant to the terms of the 401(k) plan.

ATTACHMENT B

SUPPLEMENTAL RELEASE AGREEMENT

1. **Release of Claims**. Except for those obligations created by or arising out of the November 5, 2004 Resignation, Special Advisor Appointment and General Release Agreement (the "Agreement") to which this Supplemental Release is an Attachment which have not already been performed by Western Digital Technologies, Inc. ("WDT"), I, on my own behalf and behalf of my descendants, dependents, heirs, executors, administrators, assigns and successors, and each of them, hereby acknowledge full and complete satisfaction of and release and discharge and covenant not to sue WDT or Western Digital Corporation ("WDC"), its and their divisions, subsidiaries, parents, or affiliated partnerships and corporations, past and present, and each of them, as well as its and their directors, officers, shareholders, partners, representatives, attorneys, assignees, successors, agents and employees, past and present, and each of them (individually and collectively, "Releasees"), from and with respect to any and all claims, wages, agreements, obligations, demands and causes of action, known or unknown, suspected or unsuspected (collectively, "Claims") resulting from any act or omission by or on the part of Releasees committed or omitted prior to the date of this Agreement, including, without limiting the generality of the foregoing:

   (a) any and all Claims relating to or arising from my employment or any other relationship with, interest in or separation from the Company including, without limiting the generality of the foregoing, any claim for severance pay, profit sharing, bonus or similar benefit, sick leave, pension, retirement, vacation pay, life insurance, health or medical insurance or any other fringe benefit, or disability;

   (b) any and all Claims relating to, or arising from, my right to purchase, or actual purchase of shares of stock of the Company or any subsidiary of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

   (c) any and all Claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; invasion of privacy; false imprisonment; and conversion;

   (d) any and all Claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and the California Labor Code;

(e) any and all Claims for violation of the federal or any state constitution, or any federal, state or local law, regulation or ordinance;

(f) any and all Claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all Claims for attorneys' fees and costs.

I agree that the release set forth in this Paragraph shall be and remain in effect in all respects as a complete general release.

2. **Acknowledgment of Waiver of Claims under ADEA**. I acknowledge that I am waiving and releasing any rights I may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. I acknowledge that the consideration given for this waiver and release Agreement is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing that (a) I should consult with an attorney prior to executing this Agreement; (b) I have twenty-one (21) days within which to consider this Agreement; (c) I have seven (7) days following the execution of this Agreement to revoke the Agreement; and (d) this Agreement shall not be effective until the revocation period has expired.

3. **Civil Code Section 1542.** This Agreement is intended to be effective as a general release of and bar to all Claims as stated above. Accordingly, I hereby expressly waive any rights and benefits conferred by Section 1542 of the California Civil Code, which provides:

   "A GENERAL RELEASE DOES NOT EXTEND TO A CLAIM 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."

   I acknowledge that I may later may discover Claims or facts in addition to or different from those which I now know or believe to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected its terms. Nevertheless, I hereby waive any Claims that might arise as a result of such different or additional Claims or facts.

4. **Payment of Wages.** I acknowledge that I have received all amounts owed for my regular and usual salary, usual benefits, accrued vacation and expense reimbursements through the execution date of this Supplemental Release, and that, except to the extent WDT has not yet paid the Special Advisor Transition Bonus set forth in Paragraph 2(e) of the Agreement or the Special Advisor Completion Bonus set forth in Paragraph 3 of the Agreement, WDT owes me no further payment of any kind.

I have read and agree to all terms and conditions as outlined above.

____________________ Dated:____________________
David C. Fetah

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew E. Massengill, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2004

/s/ Matthew E. Massengill

Matthew E. Massengill
Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen D. Milligan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2004

/s/ Stephen D. Milligan

Stephen D. Milligan
Chief Financial Officer

Exhibit 32.1

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the "Company"), hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended October 1, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2004

/s/ Matthew E. Massengill

Matthew E. Massengill
Chief Executive Officer

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

Exhibit 32.2

The following certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350 and in accordance with SEC Release No. 33-8238. This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that Western Digital Corporation specifically incorporates it by reference.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Western Digital Corporation, a Delaware corporation (the “Company”), hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended October 1, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2004

/s/ Stephen D. Milligan

Stephen D. Milligan
Chief Financial Officer

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