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 March 26, 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 April 23, 2004, 208.5 million shares of common stock, par value $.01 per share, were issued and outstanding.

WESTERN DIGITAL CORPORATION
INDEX

Western Digital Corporation (the "Company" or "Western Digital") has a 52 or 53-week fiscal year, which ends on the Friday nearest to June 30. 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.

Western Digital® and the Western Digital logo are registered trademarks of Western Digital Technologies, Inc. and/or its affiliates. All other trademarks mentioned are the property of their respective owners.

Table of Contents

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		NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Revenue, net	$748.9	$705.8	$2,297.9	$2,038.2
Cost of revenue	626.3	583.8	1,937.2	1,688.5
Gross margin	122.6	122.0	360.7	349.7
Operating expenses:				
Research and development	46.5	34.7	154.2	101.0
Selling, general and administrative	27.2	30.2	81.4	90.3
Total operating expenses	73.7	64.9	235.6	191.3
Operating income	48.9	57.1	125.1	158.4
Net interest and other income (expense)	0.1	(0.3)	0.3	(1.0)
Income before income taxes	49.0	56.8	125.4	157.4
Income tax provision	1.1	2.3	3.7	6.3
Net income	$ 47.9	$ 54.5	$ 121.7	$ 151.1
Income per common share:				
Basic	$ .23	$ .28	$ .59	$ .78
Diluted	$ .22	$ .26	$ .56	$ .74
Weighted average shares outstanding:				
Basic	206.7	196.3	205.4	194.1
Diluted	217.5	207.7	217.1	202.9

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par values; unaudited)

	MAR. 26, 2004	JUN. 27, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 359.9	$ 393.2
Accounts receivable, net	308.3	243.9
Inventories	149.1	97.8
Other	19.0	9.2
Total current assets	836.3	744.1
Property and equipment, net	239.4	122.1
Intangible assets, net	29.2	—
Other, net	2.2	—
Total assets	$1,107.1	$ 866.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 420.5	$ 364.6
Accrued expenses	139.0	141.1
Current portion long-term debt	6.3	—
Total current liabilities	565.8	505.7
Other liabilities	26.6	33.1
Long-term debt	43.8	—
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value; shares authorized: 5.0; shares outstanding: none	—	—
Common stock, $.01 par value; shares authorized 450.0; shares outstanding: 208.2 and 203.6, respectively	2.1	2.0
Additional paid-in capital	695.3	675.4
Accumulated deficit	(212.5)	(334.2)
Treasury stock, at cost 0.8 and 0.7 shares, respectively	(14.0)	(15.8)
Total shareholders' equity	470.9	327.4
Total liabilities and shareholders' equity	$1,107.1	$ 866.2

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)

	NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003
Cash flows from operating activities:		
Net income	$ 121.7	$151.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74.0	36.3
Non-cash interest expense	—	3.0
In-process research and development expense	25.6	—
Changes in:		
Accounts receivable	(62.0)	23.1
Inventories	(42.3)	(37.3)
Other assets	(11.1)	(1.6)
Accounts payable	40.0	51.3
Accrued expenses	(25.8)	9.9
Other	(3.1)	(1.9)
Net cash provided by operating activities	117.0	233.9
Cash flows from investing activities:		
Capital expenditures, net	(90.5)	(43.6)
Asset acquisition, net of cash acquired	(94.8)	—
Net cash used for investing activities	(185.3)	(43.6)
Cash flows from financing activities:		
Issuance of common stock under employee plans	21.2	21.0
Debenture redemptions and extinguishments	—	(88.0)
Net proceeds from long term debt	13.8	—
Net cash provided by (used for) financing activities	35.0	(67.0)
Net (decrease) increase in cash and cash equivalents	(33.3)	123.3
Cash and cash equivalents, beginning of period	393.2	223.7
Cash and cash equivalents, end of period	$ 359.9	$347.0
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 2.5	$ 2.6
Cash paid during the period for interest	$ 0.9	$ —
Supplemental disclosures of non-cash investing activities:		
Liabilities assumed in asset acquisition	$ 77.2	$ —

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

WESTERN DIGITAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accounting policies followed by the Company are set forth in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K as of and for the year ended June 27, 2003. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended June 27, 2003. 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.

2. Supplemental Financial Statement Data (in millions)

	MAR. 26, 2004	JUN. 27, 2003
Inventories:		
Finished goods	$ 72.9	$66.4
Work in process	66.9	19.6
Raw materials and component parts	9.3	11.8
	$149.1	$97.8

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Net Interest and Other Income (Expense):				
Interest income	$ 0.6	$ 1.1	$ 1.8	$ 2.8
Interest and other expense	(0.5)	(1.4)	(1.5)	(3.8)
	$ 0.1	$(0.3)	$ 0.3	$(1.0)

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 and nine months ended March 26, 2004 and March 28, 2003 were as follows (in millions):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Liability at beginning of period	$ 53.2	$ 51.3	$ 52.9	$ 47.4
Charges to operations	13.8	13.7	40.7	40.1
Utilization	(14.7)	(15.0)	(39.2)	(41.9)
Changes in estimate related to pre-existing warranties	0.8	1.0	(1.3)	5.4
Liability at end of period	$ 53.1	$ 51.0	$ 53.1	$ 51.0

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		NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Net income	$ 47.9	$ 54.5	$121.7	$151.1
Weighted average shares outstanding:				
Basic	206.7	196.3	205.4	194.1
Employee stock options and other	10.8	11.4	11.7	8.8
Diluted	217.5	207.7	217.1	202.9
Income per share:				
Basic	$ .23	$ .28	$ .59	$ .78
Diluted	$ .22	$ .26	$ .56	$ .74

For purposes of computing diluted income per share, antidilutive common share equivalents have been excluded from the calculation for employee stock options with an exercise price that exceeded the average fair market value of the common stock for the period. These antidilutive common share equivalents totaled 14.8 million and 19.1 million for the three months ended March 26, 2004 and March 28, 2003, respectively, and 14.1 million and 21.9 million for the nine months ended March 26, 2004 and March 28, 2003, respectively. For the three months and nine months ended March 28, 2003, the computation of diluted income per share also excludes 1.0 million and 2.2 million common shares respectively, issuable upon conversion of the 5.25% zero coupon convertible subordinated debentures (the “Debentures”).

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, pro forma income 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 per share for each of the three months and nine months ended March 26, 2004 and March 28, 2003, and illustrates the effect on net income and income per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Net income, as reported	$47.9	$54.5	$121.7	$151.1
Add: Stock-based employee compensation included in reported net income, net of related taxes	0.1	0.5	1.1	1.5
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	7.0	6.9	20.8	20.7
Pro forma net income	$41.0	$48.1	$102.0	$131.9
Basic income per share:				
As reported	$ .23	$ .28	$ .59	$ .78
Pro forma	$ .20	$ .25	$ .50	$ .68
Diluted income per share:				
As reported	$ .22	$ .26	$ .56	$ .74
Pro forma	$ .19	$ .24	$ .47	$ .66

The pro forma income 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 March 26, 2004 is not necessarily representative of future periods.

The fair value of Options granted during the nine months ended March 26, 2004 and March 28, 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	
	MAR. 26, 2004	MAR. 28, 2003	MAR. 26, 2004	MAR. 28, 2003
Option life (in years)	4.27	3.73	1.25	1.25
Risk-free interest rate	1.70%	3.40%	1.09%	1.94%
Stock price volatility	0.77	0.88	0.77	0.88
Dividend yield	—	—	—	—
Fair value	$7.20	$2.66	$4.73	$2.62

5. Credit Facility and Convertible Debenture Transactions

The Company has a $125 million five-year Senior Credit Facility, which provides up to $75 million in revolving credit and a term loan of $50 million (subject to outstanding letters of credit and a borrowing base calculation). 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 requires the Company to maintain certain levels of income, prohibits the payment of cash dividends on common stock, and contains a number of other covenants. The Company was in compliance with such covenants at March 26, 2004. The $50 million term loan was funded on September 22, 2003 and requires quarterly principal payments of $3 million beginning in October 2004. The Company used the proceeds from the term loan to repay obligations assumed as a result of the acquired head manufacturing operations in Thailand.

During the nine months ended March 28, 2003, the Company paid $88.0 million in cash and issued approximately 0.1 million shares of common stock to redeem its remaining outstanding Debentures with a book value of $88.4 million and an aggregate principal amount at maturity of $192.9 million. The net gain from redemption of the Debentures was not material.

6. Read-Rite Asset Acquisition

In June 2003, Read-Rite Corporation (“Read-Rite”), 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 and 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 and nine months ended March 26, 2004, the Company recorded $3.6 million and $9.6 million, respectively, of amortization expense related to these intangible assets. Estimated amortization expense is expected to be $13.2 million, $14.4 million, $4.4 million, $3.4 million and $3.4 million for fiscal years 2004, 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 disk drive motor patents owned by Papst. In December 1994, Papst dismissed its case without prejudice. In July 2002, Papst filed a new complaint against the Company and several other defendants. The suit alleges infringement by the Company of seventeen of Papst's patents related to disk drive motors that the Company purchased from motor vendors. Papst is seeking an injunction and damages. The Company filed an answer on September 4, 2002, denying Papst's complaint. On December 11, 2002, the lawsuit was transferred to the United States District Court for the Eastern District of Louisiana and included in the consolidated pre-trial proceedings occurring there. The lawsuit was stayed pending the outcome of certain other related litigation. A potential loss, if any, cannot presently be reasonably estimated. The Company intends to vigorously defend the suit.

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 is subject to many uncertainties and is therefore not predictable with assurance, management believes that any monetary liability or financial impact to the Company from these matters, individually and in the aggregate, beyond that provided at March 26, 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 June 27, 2003.

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 the growth of unit shipments of hard drives in the desktop personal computer ("PC") market, consumer electronics ("CE") market, and mobile market; increase in the demand for desktop PC hard drives in Asia; expansion of the Serial Advanced Technology Attachment ("SATA") interface in desktop PC's and Advanced Technology Attachment ("ATA")/SATA interface in enterprise hard drives; increase in areal density (the measure of storage per disk) and decrease in areal density growth rate; the Company's entrance into the mobile hard drive market; the Company's expansion into the CE market; and the Company's current expectations regarding head production, depreciation expense for the Company's head manufacturing operations, the impact of the acquisition of head manufacturing assets on the Company's long-term business model, operating expenses, cash flows, gross margin, tax rate, inventory turns, cash conversion cycle, capital expenditures, liquidity, research and development expenses, revenue by sales channel, and the impact of exchange rates on the Company's financial statements.

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 Quarterly Report on Form 10-Q under the caption "Risk Factors That May Affect Future Results" as well as the Company's other reports filed with the Securities and Exchange Commission (the "SEC"). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Description of the Business

Western Digital designs, develops, manufactures and markets hard drives for digital information storage. The Company's hard drives are used in desktop PC's, enterprise servers, network attached storage devices, an expanding list of CE products such as video game consoles, digital video recorders and set-top boxes and as external storage devices. Western Digital markets its hard 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/Dataquest, Inc. ("Gartner") report published in April 2004.

Western Digital builds hard drives in assembly facilities in Malaysia and in Thailand, and recently acquired facilities supporting its head manufacturing operations in California and in Thailand. The Company also builds printed circuit board assemblies and head stack 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.

Hard-drive industry dynamics have changed significantly over the last several years. Currently, eight hard drive vendors compete in the $22 billion-a-year hard drive market, compared to 15 vendors in calendar year 2000. Western Digital believes consolidation in the industry has contributed to more efficient operations and leaner cost structures. According to the TrendFOCUS, Inc. (“TrendFOCUS”) quarterly report published in February 2004, Western Digital, Seagate Technology, Maxtor Corporation, and Hitachi Global Storage Technologies supplied approximately 84% of the total hard drive market during the fourth quarter of calendar year 2003.

The Company focuses on providing quality products, superior customer service and flexibility by managing the following: technology deployment, manufacturing, cost, delivery, quality and reliability. Western Digital believes that its business 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 drive market. Gartner estimates that unit shipments of hard drives in the desktop PC market will grow by approximately 5% per year through calendar year 2008. The Company has increased its resources to address the fast-growing emerging markets of Asia, Latin America, Eastern Europe and Russia. For example, the Company’s revenue in Asia for the third quarter of 2004 increased to 28% of total revenue as compared to 21% of total revenue for the same period last year. Gartner estimates that demand for desktop PC hard drives in Asia will increase 12% per year through calendar year 2008.

Because CE demand for hard drives is relatively new, with many consumer applications currently employing similar hard drive technology as is found in desktop PC’s, Western Digital presently believes it can expand into this developing market. As this market develops, additional investments by the Company may be required. Gartner estimates that unit shipments of 3.5-inch form factor hard drives in CE markets will grow by approximately 31% per year through calendar year 2008.

The Company is also pursuing new revenue opportunities in enterprise storage through its application of the new SATA interface, which the Company believes will replace the present parallel ATA interface in desktop PC’s over the next few years. 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 drive applications — at a lower cost. Gartner estimates that 43% of enterprise hard drive unit shipments will use the ATA/SATA interface by calendar year 2008.

In addition to the CE and SATA growth opportunities, the Company has plans to enter the mobile hard drive market to provide hard drives for notebook PC’s. Gartner forecasts that unit sales of 2.5-inch form factor hard drives to the mobile market will grow from an estimated 38 million in calendar year 2003 to approximately 79 million in calendar year 2008, reflecting a compound annual growth rate of approximately 16%.

In June 2003, Read-Rite Corporation (“Read-Rite”), 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 and direct costs of the acquisition and other miscellaneous assumed obligations totaling $17.0 million. Proceeds from a $50 million term loan were used to repay obligations assumed as a result of the acquired head manufacturing operations in Thailand. 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.

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 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 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 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 to pay external suppliers. This is expected to result in higher operating income than it otherwise would have had without the acquisition.

The Company began realizing these net financial benefits in the second and third quarters of 2004. These benefits are expected to increase as the Company ramps its head manufacturing capability. 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 business model. For example, depreciation expense for the head manufacturing operations is expected to be approximately $20 million per quarter during 2005.

Capital expenditures and working capital investments required to support the head manufacturing operations will increase when compared to the Company's prior business model. For example, capital expenditures related to the head manufacturing operations are expected to be between $70 million and $90 million in fiscal year 2004. Inventory turns are expected to decrease by approximately 2 turns, impacting the Company's cash conversion cycle by approximately 3 days.

Third Quarter Overview

Western Digital continued to deliver positive operational results for the third quarter of 2004. For the three months ended March 26, 2004 net revenue was $748.9 million on unit shipments of 11.8 million. The Company's gross margin for the three months ended March 26, 2004 was 16.4% and the Company generated net income of $47.9 million. The Company's cash flow from operations was $61.8 million during the quarter, allowing it to exit the quarter with cash and cash equivalents of $359.9 million. The financial results for the quarter included the accretive benefit of the Company's head operations.

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				NINE MONTHS ENDED			
	MAR. 26, 2004		MAR. 28, 2003		MAR. 26, 2004		MAR. 28, 2003	
Revenue, net	$748.9	100.0%	$705.8	100.0%	$2,297.9	100%	$2,038.2	100.0%
Gross margin	122.6	16.4	122.0	17.3	360.7	15.7	349.7	17.2
Total operating expenses	73.7	9.8	64.9	9.2	235.6	10.3	191.3	9.4
Operating income	48.9	6.5	57.1	8.1	125.1	5.4	158.4	7.8
Net income	47.9	6.4	54.5	7.7	121.7	5.3	151.1	7.4

Net Revenue

Net revenue was $748.9 million for the three months ended March 26, 2004, an increase of 6.1%, or $43.1 million, from the same period last year. Total unit shipments increased to 11.8 million for the third quarter of 2004 as compared to 10.3 million for the third quarter of 2003 as a result of an increase in demand for hard drives in the desktop PC market and in emerging markets, such as game consoles and personal video recorders. This growth in units was partially offset by a $4 per unit decline in average selling prices ("ASP's") to $64 per unit for the three months ended March 26, 2004 from $68 per unit in the same period last year. Historically, ASP's in the desktop hard drive industry have declined annually in the 10-20% range. However, those price declines have moderated recently given improved supply/demand management, industry consolidation and fewer component cost reduction opportunities. Western Digital will continue to adjust its pricing as necessary in response to future supply and demand conditions.

Revenue by geographic region for the three months ended March 26, 2004 was 42% from the Americas, 30% from Europe and 28% from Asia, compared to 48%, 31% and 21%, respectively, for the same period last year. These changes reflect the Company's continued focus on revenue growth in emerging geographic markets.

Revenue by sales channel for the three months ended March 26, 2004 was 49% from original equipment manufacturers ("OEMs"), 43% from distributors and 8% from the retail channel, compared to 53%, 39% and 8%, respectively, for the same period last year. The distribution of revenue by sales channel has remained relatively consistent for the past seven quarters. Currently, management does not foresee any trends within the market that would indicate a material change to this distribution in future periods.

For the nine months ended March 26, 2004, net revenue was $2.3 billion, an increase of 12.7%, or $259.7 million, from the nine months ended March 28, 2003. During this period, total unit shipments increased to 35.8 million from 29.2 million during the same period last year, while ASP's decreased to $64 per unit from $70 per unit.

Gross Margin

For the three months ended March 26, 2004, gross margin percentage decreased to 16.4% from 17.3% for the same period last year. During the third quarter of 2004, gross margin was negatively impacted by aggressive pricing conditions in the OEM channel. Western Digital was able to partially offset the impact of these pricing conditions with the ongoing accretive benefit of its head manufacturing operations. Additionally, an industry-wide focus on decreasing the number of hard drive units in the distribution channel resulted in lower channel inventories at the end of March. Thus, the Company saw less aggressive pricing in the distribution channel during the third quarter of 2004. Less aggressive pricing and lower hard drive units in the distribution channel allowed for reduced price protection and other distributor incentive programs, aiding gross margin during the quarter. For the nine months ended March 26, 2004, gross margin percentage decreased to 15.7% from 17.2%. The decrease in gross margin percentage year-over-year was a result of the aforementioned factors as well as the start-up expenses and other charges totaling $18.1 million incurred during the first quarter of 2004 relating to the Company's head manufacturing operations acquired in July 2003. The $18.1 million of start-up expenses and other charges consisted primarily of head manufacturing employee severance costs, start-up expenses and under-absorbed overhead related to low head production volumes. This was offset to a minimal extent by the favorable settlement of some acquisition related contingencies during the second and third quarters of fiscal year 2004.

Gross margin percentage for the fourth quarter of 2004 is expected to decline slightly. The Company typically experiences declining gross margins in the fourth quarter as this is a seasonally softer period for hard drive sales. For example, gross margins decreased from 17.3% for the third quarter of 2003 to 16.4% for the fourth quarter of 2003 on a non- GAAP basis, which excludes a non-recurring charge of $18.5 million for a settlement of vendor litigation. Gross margin for the fourth quarter of 2003 on a GAAP basis, which includes the non-recurring charge, was 13.7%. The gross margin excluding the non-recurring litigation charge is provided to illustrate what the seasonal decline in gross margin would have been without the charge.

Operating Expenses

R&D expense was $46.5 million for the three months ended March 26, 2004, an increase of 34.0%, or $11.8 million, from the same period last year. The increase in R&D expense year-over-year was primarily related to head-design, mobile and enterprise platform development, offset by a reduction in employee performance incentive programs. R&D expense for the nine months ended March 26, 2004 was $154.2 million, an increase of $53.2 million, or 52.7%, from the same period last year. The increase in R&D expense was primarily due to the aforementioned factors as well as the charge of $25.6 million incurred during the first quarter of 2004 for acquired in-process research and development costs. This charge related to projects that had not reached technological feasibility and had no alternative future use. As of March 26, 2004, progress on these projects was consistent with management's original estimates, including the costs incurred towards completion and projected release dates.

SG&A expense was $27.2 million for the three months ended March 26, 2004, a decrease of 9.9%, or $3.0 million, from the three months ended March 28, 2003. SG&A expense for the nine months ended March 26, 2003 was $81.4 million, a decrease of 9.9%, or $8.9 million, from the nine months ended March 28, 2003. The decrease in SG&A expense year-over-year was primarily due to a reduction in employee incentive programs and reductions in baseline spending.

The Company will continue to manage its operating expense structure in line with its operating profit objectives.

Income Tax Provision

Income tax provision was $1.1 million and $3.7 million for the three months and nine months ended March 26, 2004, respectively. Differences between the effective tax rate for the three months and nine months ended March 26, 2004 of approximately 3.0% and the U.S. federal statutory rate are primarily related to earnings of certain subsidiaries which are taxed at substantially lower tax rates as compared to U.S. statutory rates and the partial utilization of net operating loss ("NOL") carryforwards. The Company anticipates that the effective tax rate for the full fiscal year 2004 will be approximately 3.0%.

Liquidity and Capital Resources

Liquidity

The Company had cash and cash equivalents of $359.9 million as of March 26, 2004 and $393.2 million as of June 27, 2003. Net cash provided by operating activities during the nine months ended March 26, 2004 was $117.0 million, as compared to $233.9 million for the same period last year. Net cash flows from operating activities primarily resulted from net income. This represents the Company's principal source of cash. Operating cash flows were impacted by net cash used to fund working capital requirements of $104.3 million for the nine months ended March 26, 2004, an increase of $147.8 million from the same period last year. The increase in net cash used to fund working capital requirements was primarily due to a higher accounts receivable balance given changes with the Company's mix of customers, higher work in process inventory associated with the head manufacturing operations and the payment of a $45.0 million litigation settlement.

The Company's working capital requirements depend upon the effective management of the Company's cash conversion cycle. The cash conversion cycle, which consisted of 40 days sales outstanding ("DSO") plus 20 days inventory outstanding ("DIO") less 61 days payable outstanding ("DPO"), was negative one day for the nine months ended March 26, 2004, as compared to negative ten days for the nine months ended March 28, 2003. The increase in the cash conversion cycle was due to higher DSO's as a result of changes in the Company's mix of customers and higher DIO's as a result of the longer production cycle associated with the head manufacturing operations. These increases were partially offset by an increase in DPO's. The Company expects its business model will continue to generate a negative cash conversion cycle going forward.

Net cash used in investing activities for the nine months ended March 26, 2004 was $185.3 million, as compared to $43.6 million for the same period last year. Net cash used in investing activities consisted primarily of $94.8 million for the asset acquisition of the head manufacturing operations and $90.5 million of net capital expenditures. Net cash used in investing activities for the nine months ended March 28, 2003 related to net capital expenditures of $43.6 million. The increase in net capital expenditures year-over-year was primarily related to assets purchased to upgrade the Company's head operation and desktop hard drive production capabilities and for the normal replacement of existing assets.

Net cash provided by financing activities for the nine months ended March 26, 2004 was $35.0 million, as compared to net cash used by financing activities of $67.0 million for the same period last year. The net cash provided by financing activities in the nine months ended March 26, 2004 primarily related to $21.2 million received in connection with stock options exercised and Employee Stock Purchase Plan purchases and $13.8 million received in net proceeds from long term debt. The net cash used by financing activities for the nine months ended March 28, 2003 primarily related to $21.0 million received in connection with stock options exercised and Employee Stock Purchase Plan purchases and $88.0 million used for the redemption of the Company's remaining outstanding 5.25% zero coupon convertible subordinated debentures.

Capital Commitments

Long Term Debt- The Company has a $125 million five-year credit facility ("Senior Credit Facility"), which replaced the facility that matured on September 20, 2003. The new Senior Credit Facility provides up to $75 million in revolving credit and a term loan of $50 million (subject to outstanding letters of credit and a borrowing base calculation). 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 requires the Company to maintain certain levels of income, prohibits the payment of cash dividends on common stock, and contains a number of other covenants. As of March 26, 2004, the Company was in compliance with such covenants. The $50 million term loan was funded on September 22, 2003 and requires quarterly principal payments of $3 million beginning in October 2004. The Company used the proceeds from the term loan to repay bank obligations assumed as a result of the head manufacturing operations in Thailand acquired in July 2003. The Company anticipates that cash flow from operations will be sufficient to support its operating requirements in the near future. Accordingly, the Company does not anticipate drawing down on the revolving line of credit.

Capital Expenditures- The Company incurred capital expenditures of $90.5 million during the nine months ended March 26, 2004. Product development and demand as well as on-going operating efficiencies within the drive and head manufacturing facilities influence the level of Western Digital's capital expenditures. Capital expenditures for the full fiscal year 2004 are anticipated to be approximately $160 million.

Operating Leases- The Company leases certain facilities and equipment under long-term, non-cancelable operating leases that expire at various dates through 2012. During the nine months ended March 26, 2004, rent expense under these leases, including month- to- month rentals, was $11.1 million. The following table summarizes the obligations under these commitments (in millions):

	Operating Leases
Remaining 2004	$ 2.9
2005	10.4
2006	10.0
2007	7.9
2008	7.0
Thereafter	15.2
	$53.4

Purchase Orders- In the normal course of business, to reduce the risk of component shortages, the Company enters into purchase commitments with suppliers for the purchase of hard drive components used to manufacture the Company's products. These commitments generally cover forecasted component supplies needed for production during the next quarter, become payable upon receipt of the components and may be non-cancelable (cancellation charges may be significant). The Company's relationship with suppliers allows for some flexibility within these commitments and quantities are subject to change as a quarter progresses and the Company's needs change. The Company has entered into long-term purchase agreements with certain vendors for components. 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 Item 3, Quantitative and Qualitative Disclosures About Market Risk, 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 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 be used to offset common stock issued under employee stock option and share purchase programs.

The Company believes its current cash and cash equivalents will be sufficient to meet its working capital needs through the foreseeable future. There can be no assurance that the Senior Credit Facility will continue to be available to the Company. Also, the Company's ability to sustain its working capital position is dependent upon a number of factors that are discussed below under the heading "Risk Factors That May Affect Future Results." 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 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 price protection for inventories held by resellers at the time of published list price reductions. In addition, the Company may have agreements with resellers that provide for stock rotation on slow-moving items and other incentive programs. In accordance with current accounting standards, the Company recognizes revenue upon shipment or delivery to resellers and records a reduction to revenue for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. Adjustments are based on anticipated price decreases during the reseller holding period, estimated amounts to be reimbursed to qualifying customers, as well as historical pricing information. If end-market demand for hard drives declines significantly, the Company may have to increase sell-through incentive payments to resellers, resulting in an increase in price protection allowances, which could adversely impact operating results.

The Company establishes an allowance for doubtful accounts by analyzing specific customer accounts and assessing the risk of loss based on insolvency, disputes or other collection issues. In addition, the Company routinely analyzes the different receivable aging categories and establishes reserves based on the length of time receivables are past due. If the financial condition of a significant customer deteriorates resulting in their inability to pay their accounts when due, an increase in 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 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 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" ("SFAS 5"), 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).

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

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

To achieve consistent success with computer manufacturer customers, we must balance several key attributes: time-to-market, time-to-volume, quality, cost, service 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,
- qualify new products that have changes in overall specifications or features that our customers may require for their business needs,
- qualify these products with key customers on a timely basis by meeting all of our customers' needs for performance, quality and features, or
- consistently meet stated quality requirements on delivered products,

our operating results would be adversely affected.

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

New products in the desktop hard drive market may require higher areal densities than previous product generations, posing formidable technical and manufacturing challenges. Higher areal densities require fewer heads and disks to achieve a given drive capacity, which means that existing head technology must be improved or new technology developed to accommodate more data on a single disk. In addition, our introduction of new products during a technology transition increases the likelihood of unexpected quality concerns. Our failure to bring high quality new products to market on time and at acceptable costs would 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 ASP's 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 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. Although we believe that the current rate of growth in areal density is lower than in the past several years and will continue to decrease in the near term, we expect that areal density will continue to increase. Our failure to recover the cost of product development in the future could adversely affect our operating results.

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.

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

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

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

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 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 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.

The decline in ASP’s in the hard drive industry could adversely affect our operating results.

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

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

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

Demand for our hard drives depends on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for hard drives in any given period. As a result, the hard drive market has experienced periods of excess capacity, which has led to intense price competition. 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 drives require us to develop new products.

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems. According to data released by TrendFOCUS in November 2003, systems priced below $600 comprised the fastest growing segment of the desktop computer market. If we are not able to offer a competitively priced hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

In addition, the market for hard drives is 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 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 drives has expanded into the game console market. Microsoft and Sony currently incorporate a hard drive in their video game systems. However, there can be no assurance that Microsoft and Sony will continue incorporating a hard drive into their game consoles, or that the market for these products will grow. In addition, some consumer electronics, 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, increasing our overall operational expense. If we are not successful in using our hard 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 drive market segments, our business may suffer.

To remain a significant supplier of hard drives, we will need to offer a broad range of disk drive products to our customers. We currently offer a variety of 3.5-inch form factor hard drives for the desktop computer market. However, demand for hard 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 desktop PC industry is transitioning to higher speed interfaces such as SATA to handle higher data transfer rates and 80 GB per platter technology for increased capacity. We currently offer SATA and 80 GB per platter products; however, the transition of technology and the introduction of new products is challenging and creates risks. While we continue to develop new products and look to expand into non-desktop applications such as consumer electronics and mobile 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 desktop hard drives.

We depend on our key personnel and skilled employees.

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

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 third quarter of fiscal 2004, sales to our top 10 customers accounted for approximately 51% of revenue, as compared to 55% of revenue for the third quarter of fiscal 2003. 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 drive components and manufacturing equipment, an increase in the cost of such components or equipment, an extended shortage of required components or equipment, 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 there is 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 have to pay significant cancellation charges to suppliers 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, in April 1999, we entered into a three-year volume purchase agreement with Komag under which we buy a substantial portion of our media components from Komag. In October 2001, we amended the Komag volume purchase agreement to extend the initial term to six years. Similarly, in February 2001, we entered into a volume purchase agreement with IBM under which we buy a portion of our read channel devices from IBM. Effective December 2003, we amended the IBM volume purchase agreement to extend the term through December 31, 2004. In addition, in June 2002, we entered into a five-year volume purchase agreement with Marvell under which we buy a portion of our read channel devices from Marvell. These relationships have increased our dependence on each of Komag, IBM and Marvell as a supplier. Our future operating results may depend substantially on Komag's ability to timely qualify its media components in our new development programs, and each of Komag's, IBM's and Marvell's ability to supply us with these components in sufficient volume to meet our production requirements. A significant disruption in Komag's ability to manufacture and supply us with media components or IBM's or Marvell's ability to manufacture and supply us with read channel devices 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.

If we are unable to timely and cost-effectively develop heads with leading technology, 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 heads for use in the hard drives we manufacture. Consequently, we will be 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. 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, 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 will experience additional costs and risks in connection with our head manufacturing operations.

Our acquisition of head manufacturing assets represented a fundamental change in our operating structure, as we are now manufacturing heads for use in the hard drives we manufacture. Consequently, we carry a higher percentage of fixed costs than assumed in our prior business model. For example, our depreciation expense for the head manufacturing operations is expected to be approximately $20 million a quarter during 2005. If the overall level of production decreases for any reason, the acquired 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;
- the greater need for predictability of quarterly production to ensure the best utilization of assets to drive competitive costs; and
- the need for assured supply of components, especially hard drive media, that is optimized to work with our heads.

Moreover, capital expenditures and working capital investments required to support the head manufacturing operations will increase. For example, capital expenditures related to the head manufacturing operations are expected to be between $70 million and $90 million in fiscal year 2004. Inventory turns are expected to decrease by approximately 2 turns, impacting the Company's cash conversion cycle by approximately 3 days. We also expect to incur between $45 and $50 million a year in research and development and investigation of new recording technologies to extend recording technology.

In addition, we may incur additional costs, expenses and 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 deal with us or may not deal with us on the same terms and conditions we have previously enjoyed;
- the costs of operating head manufacturing assets may exceed the prices we have historically paid for heads or the prices that might be otherwise available to us from other vendors;
- we may be subject to claims that our manufacturing of heads may infringe certain intellectual property rights of other companies;
- we could incur substantial costs, including clean up costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws applicable to our Fremont, California facility, including those governing the discharge of pollutants into the air and water; 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 the acquisition, 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 strategic component suppliers.

Under our business model, we do not manufacture any of the component parts used in our hard 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 strategic component suppliers. We must also effectively integrate different products from a variety of suppliers, each of which employs variations on technology, which can impact, for example, feasible combinations of heads and media components. 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 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 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.

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 computer manufacturer customers (also referred to as OEMs) 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.

We have only 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 drives are manufactured in facilities in Malaysia and in Thailand. In addition, following our acquisition of head manufacturing assets in July 2003, we are operating a wafer fabrication and research and development facility in Fremont, California and a slider fabrication 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, which occurred in Malaysia during the first quarter of 1999. As a result of the Malaysian currency controls, we are no longer hedging the Malaysian currency risk. Currently, we hedge the 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.

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

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

We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. We also are a party to several judicial and other proceedings relating to patent and other intellectual property rights. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. 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 defect, which could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated due to the unenforceability of liability limitations.

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

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

We often 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, and SAE Magnetics Ltd., a subsidiary of TDK Corporation;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PC’s often due to technological advances; and
- availability and rates of transportation.

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

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

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

The market price of our common stock is volatile.

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

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

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

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

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

Due to the risks described herein, in the future we may be unable to maintain adequate financial resources for capital expenditures, expansion or acquisition activity, working capital and research and development. We have a credit facility, which matures on September 19, 2008. 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 March 26, 2004, the Company had outstanding the following purchased foreign currency forward exchange contracts (in millions, except weighted average contract rate):

	MAR. 26, 2004		
	Contract Amount	Weighted Average Contract Rate	Unrealized Gain (Loss)
	(U.S. Dollar equivalent amounts)		
FOREIGN CURRENCY FORWARD CONTRACTS:			
Thai Baht	$130.3	39.43	$0.1
Euro	$ 2.3	0.83	—
British Pound Sterling	$ 1.9	0.55	—

During the three months and nine months ended March 26, 2004 and March 28, 2003, respectively, total realized transaction and forward exchange contract currency gains and losses were not material to the condensed consolidated financial statements. Based on historical experience, the Company does not expect that a significant change in foreign exchange rates would materially affect the Company's condensed consolidated financial statements.

Disclosure About Other Market Risks

Variable Interest Rate Risk

At the option of the Company, borrowings under the Senior Credit Facility 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 March 26, 2004, the Company had a $50 million term loan outstanding under the Senior Credit Facility.

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 control 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 control over financial reporting.

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. Reference is also made to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 7, "Legal Proceedings," in our Quarterly Report on Form 10-Q for the quarters ended September 26 and December 26, 2003, for previous descriptions of these matters.

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

(a) ***Exhibits:***

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.

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

On January 22, 2004, the Company filed a current report on Form 8-K, pursuant to Item 12, to furnish its press release dated January 22, 2004, announcing financial information for the fiscal quarter ended December 26, 2003, and including unaudited Condensed Consolidated Statements of Income and Balance Sheets for the fiscal quarter ended December 26, 2003.

On February 5, 2004, the Company filed a current report on Form 8-K, pursuant to Item 9, to provide Regulation FD disclosure prior to investor presentations delivered by officials of the Company that included business and financial information about the Company and the hard drive industry.

On February 24, 2004, the Company filed a current report on Form 8-K, pursuant to Item 9, to provide Regulation FD disclosure prior to meetings between officials of the Company and investors that included an update on certain conditions in the hard drive industry.

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: May 6, 2004

EXHIBIT INDEX

Exhibit No.	Description
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.

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: May 6, 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: May 6, 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, nor shall it be incorporated by reference in 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 March 26, 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: May 6, 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, nor shall it be incorporated by reference in 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:

(iii) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended March 26, 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

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

Dated: May 6, 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.