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 September 30, 2005

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

As of the close of business on October 28, 2005, 215.7 million shares of common stock, par value $.01 per share, were issued and outstanding.

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EXHIBIT 32.1
EXHIBIT 32.2

Western Digital Corporation (the “Company”, “Western Digital” or “WD”) has a 52 or 53-week fiscal year, which typically ends on the Friday nearest to June 30. However, approximately every six years, the Company reports a 53-week fiscal year to align its fiscal quarters with calendar quarters by adding a week to its fourth fiscal quarter. The quarters ended September 30, 2005 and October 1, 2004 were 13 weeks. Fiscal year 2006 will be comprised of 52 weeks and will end on June 30, 2006. Unless otherwise indicated, references herein to specific years and quarters are to the Company’s fiscal years and fiscal quarters, and references to financial information are on a consolidated basis.

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

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PART I. FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par values; unaudited)

	Sept. 30, 2005	July 1, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 506.0	$ 485.2
Short-term investments	75.3	113.2
Accounts receivable, net	470.4	402.9
Inventories	172.8	152.9
Other	47.6	27.0
Total current assets	1,272.1	1,181.2
Property and equipment, net	417.8	395.0
Intangible and other assets	10.6	12.4
Total assets	$ 1,700.5	$ 1,588.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 648.1	$ 569.1
Accrued expenses	110.1	154.1
Accrued warranty	78.1	75.2
Current portion of long-term debt	22.2	20.1
Total current liabilities	858.5	818.5
Long-term debt	31.5	32.6
Other liabilities	33.8	35.4
Commitments and contingent liabilities (Note 7)		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized — 5.0 shares; Outstanding — None	—	—
Common stock, $.01 par value; authorized — 450.0 shares; Outstanding — 215.7 shares	2.2	2.1
Additional paid-in capital	705.4	696.2
Retained earnings	84.3	15.5
Treasury stock — common shares at cost; 1.2 and 0.9 shares, respectively	(15.2)	(11.7)
Total shareholders' equity	776.7	702.1
Total liabilities and shareholders' equity	$ 1,700.5	$ 1,588.6

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts; unaudited)

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Revenue, net	$ 1,009.9	$ 823.6
Cost of revenue	831.6	710.5
Gross margin	178.3	113.1
Operating expenses:		
Research and development	70.0	54.0
Selling, general and administrative	40.4	27.9
Total operating expenses	110.4	81.9
Operating income	67.9	31.2
Net interest and other income	2.5	—
Income before income taxes	70.4	31.2
Income tax provision	1.6	0.8
Net income	$ 68.8	$ 30.4
Net income per share:		
Basic	$ .32	$ .15
Diluted	$ .31	$ .14
Weighted average shares outstanding:		
Basic	212.9	205.2
Diluted	221.1	212.6

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

WESTERN DIGITAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions; unaudited)

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Cash flows from operating activities		
Net income	$ 68.8	$ 30.4
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	35.6	28.8
Stock-based compensation	6.9	0.2
Changes in:		
Accounts receivable	(67.1)	(87.9)
Inventories	(19.9)	4.3
Accounts payable	79.0	100.7
Accrued expenses	(39.5)	24.4
Other	(24.2)	(7.8)
Net cash provided by operating activities	39.6	93.1
Cash flows from investing activities		
Capital expenditures, net	(50.2)	(50.7)
Purchases of short-term investments	(19.0)	(42.0)
Sales of short-term investments	57.0	—
Net cash used for investing activities	(12.2)	(92.7)
Cash flows from financing activities		
Issuance of common stock under employee plans	12.6	4.7
Repurchase of common stock	(14.2)	(15.0)
Repayment of long-term debt	(5.0)	(4.7)
Net cash used for financing activities	(6.6)	(15.0)
Net increase (decrease) in cash and cash equivalents	20.8	(14.6)
Cash and cash equivalents, beginning of period	485.2	345.5
Cash and cash equivalents, end of period	$ 506.0	$ 330.9
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 1.7	$ 0.6
Cash paid during the period for interest	$ 0.7	$ 0.5
Supplemental disclosure of non-cash investing and financing activities:		
Equipment additions funded by capital lease obligations	$ 6.0	$ 4.3

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 July 1, 2005. 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 ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended July 1, 2005. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain prior period amounts have been reclassified to conform to current period presentation.

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

2. Supplemental Financial Statement Data (in millions)

	Sept. 30, 2005	Jul. 1, 2005
Inventories:		
Finished goods	$ 104.8	$ 78.7
Work in process	53.7	59.7
Raw materials and component parts	14.3	14.5
	$ 172.8	$ 152.9

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Net Interest and Other Income:		
Interest income	$ 3.3	$ 0.8
Interest and other expense	(0.8)	(0.8)
	$ 2.5	$ —

Western Digital records an accrual for estimated warranty costs when revenue is recognized. Warranty covers costs of repair or replacement of the hard disk drive over the warranty period, which generally ranges from one to five years. This accrual 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 accrual for the three months ended September 30, 2005 and October 1, 2004 were as follows (in millions):

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Warranty accrual, beginning of period	$ 91.9	$ 56.8
Charges to operations	21.3	18.4
Utilization	(9.7)	(12.6)
Changes in estimate related to pre-existing warranties	(7.2)	2.7
Warranty accrual, end of period	$ 96.3	$ 65.3

Accrued warranty also includes amounts classified in non-current liabilities of $18.2 million at September 30, 2005, $16.7 million at July 1, 2005 and $11.1 million at October 1, 2004.

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	
	Sept. 30, 2005	Oct. 1, 2004
Net income	$ 68.8	$ 30.4
Weighted average shares outstanding:		
Basic	212.9	205.2
Employee stock options and other	8.2	7.4
Diluted	221.1	212.6
Income per share:		
Basic	$ .32	$ .15
Diluted	$ .31	$ .14

For purposes of computing diluted income per share, common share equivalents with an exercise price that exceeded the average fair market value of common stock for the period are considered antidilutive and have been excluded from the calculation for employee stock options. These antidilutive common share equivalents totaled 5.9 million and 9.2 million for the three months ended September 30, 2005 and October 1, 2004, respectively.

4. Stock-Based Compensation

Stock-Based Compensation Expense

Effective July 2, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), “Share Based Payment” (“SFAS 123-R”). SFAS 123-R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS 123-R, the Company recognized the cost resulting from all share-based payment transactions including shares issued under the Company’s stock option plans and employee stock purchase plan (“ESPP”) in the financial statements. As a result of adopting SFAS 123-R, the Company’s income before income taxes and net income for the three months ended September 30, 2005 were $4.7 million and $4.6 million lower, respectively, than if the Company had continued to account for share-based compensation under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and its related interpretations (“APB Opinion No. 25”). Basic and diluted net income per share for the three months ended September 30, 2005 would have been $0.34 and $0.33, respectively, if the Company had not adopted SFAS 123-R. At September 30, 2005, the total compensation cost related to unvested stock options granted to employees but not yet recognized was $33.4 million and will be amortized on a straight-line basis over a weighted average period of approximately 2.3 years.

Prior to July 2, 2005, the Company accounted for stock-based employee compensation plans (including shares issued under the Company’s stock option plans and ESPP) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). The following table sets forth the computation of basic and diluted income per share for the three months ended October 1, 2004 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 Oct. 1, 2004
Net income, as reported	$ 30.4
Add: Stock-based employee compensation included in reported net income, net of related taxes	0.2
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(5.9)
Pro forma net income	$ 24.7
Basic income per share:	
As reported	$ .15
Pro forma	$ .12
Diluted income per share:	
As reported	$ .14
Pro forma	$ .12

Fair Value Disclosures

The fair value of stock options granted during the three months ended September 30, 2005 was estimated using a binomial option pricing model. The binomial model requires the input of highly subjective assumptions including the expected stock price volatility, the expected price multiple at which employees are likely to exercise stock options and the expected employee termination rate. The Company uses historical data to estimate option exercise, employee termination, and expected stock price volatility within the binomial model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of stock options granted during the three months ended September 30, 2005 was estimated using the following assumptions:

	SEPT. 30, 2005
Suboptimal exercise factor	1.58
Range of risk-free interest rates	4.01% to 4.34%
Range of expected volatility	0.38 to 0.82
Weighted average expected volatility	0.68
Post-vesting termination rate	15.36%
Dividend yield	—
Fair value	$5.82

The pro forma income per share information for all stock options granted on or prior to December 31, 2004 as well as ESPP shares granted prior to September 30, 2005 was estimated using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton 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 fair value of stock options and ESPP shares granted during the three months ended October 1, 2004, have been estimated at the date of grant using a Black-Scholes-Merton model with the following weighted average assumptions:

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

Stock Options

The following table summarizes activity under the Company's stock option plans (in millions, except per share amounts):

	Number of Shares	Weighted Average Exercise Price Per Share	Remaining Contractual Life* (in years)	Aggregate Intrinsic Value
Options outstanding at July 1, 2005	19.5	$ 9.39		
Granted	0.2	14.27		
Exercised	(0.7)	7.24		
Canceled or expired	(0.4)	10.32		
Options outstanding at September 30, 2005	18.6	9.52	6.05	$ 81.8
Exercisable at September 30, 2005	11.7	$ 9.21	5.26	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for those awards that have an exercise price currently below the quoted price. As of September 30, 2005, the Company had options outstanding to purchase an aggregate of 15.8 million shares with an exercise price below the quoted price of the Company's stock resulting in an aggregate intrinsic value of $81.8 million. During the three months ended September 30, 2005 and October 1, 2004, the aggregate intrinsic value of options exercised under the Company's stock option plans was $5.4 million and $1.2 million, respectively, determined as of the date of exercise.

Employee Stock Purchase Plan

The Company's ESPP operated in accordance with Section 423 of the Internal Revenue Code whereby eligible employees could authorize payroll deductions of up to 10% of their salary to purchase shares of the Company's common stock at 85% of the fair market value of common stock on the date of grant or the exercise date, whichever was less. Effective August 1, 2005, the Company suspended its ESPP.

Deferred Stock Compensation

During the three months ended September 30, 2005, the Company expensed $2.2 million related to unvested restricted stock awards of which $0.8 million represented the incremental cost from modifications of pre-existing awards. Additionally, the Company granted 1.3 million shares of restricted stock during the period with an aggregate market value of $18.5 million. As of September 30, 2005, the aggregate unamortized fair value of all unvested restricted stock awards was $29.7 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.3 years.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings and long-term debt consisted of the following as of September 30, 2005 and July 1, 2005 (in millions):

	SEPT. 30, 2005	JUL. 1, 2005
Term loan	$ 34.4	$ 37.5
Capital lease obligations	19.3	15.2
Total	53.7	52.7
Less amounts due in one year	(22.2)	(20.1)
	$ 31.5	$ 32.6

The Company has a $125 million credit facility ("Senior Credit Facility") consisting of a revolving credit line (subject to outstanding letters of credit and a borrowing base calculation) and a term loan of $34 million as of September 30, 2005. Both the revolving credit facility and the term loan 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. For the three months ended September 30, 2005, the Company had no borrowings on the revolving credit line and the average variable rate on the Company's term loan was 5.75%. The term loan requires quarterly principal payments of approximately $3 million. Principal payments made on the term loan increase the amount of revolving credit available. At September 30, 2005, $88 million was available for borrowing under the revolving credit line and the Company had $3 million in outstanding letters of credit. As of September 30, 2005 the Company was in compliance with all covenants related to the Senior Credit Facility.

6. Amortization of Intangibles

In June 2003, Read-Rite Corporation ("Read-Rite"), then one of the Company's suppliers of magnetic recording heads, commenced voluntary Chapter 7 bankruptcy proceedings. On July 31, 2003, Western Digital purchased substantially all of the assets of Read-Rite, including its wafer fabrication equipment in Fremont, California and manufacturing facility in Bang Pa-In, Thailand. Approximately $38.8 million of the purchase price related to purchased technology, which is being amortized over a weighted average period of three years. During the three months ended September 30, 2005 and October 1, 2004 the Company recorded $1.8 million and $3.7 million, respectively, of amortization expense related to these intangible assets. Amortization expense is estimated to be $4.4 million, $3.4 million and $3.4 million for fiscal years 2006, 2007 and 2008, respectively.

7. Legal Proceedings

In June 1994, Papst Licensing ("Papst") brought suit against the Company in the United States District Court for the Central District of California, alleging infringement by the Company of five hard disk drive motor patents owned by Papst. In December 1994, Papst dismissed its case without prejudice. In July 2002, Papst filed a new complaint against the Company and several other defendants. The suit alleged infringement by the Company of seventeen of Papst's patents related to hard disk drive motors that the Company purchased from motor vendors. Papst sought 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.

On July 4, 2005, the Company entered into a Settlement and License Agreement with Papst. In connection with the settlement, the Company made a one-time payment of $24 million to Papst on July 29, 2005, of which $19 million represented a charge to selling, general and administrative expense for the Company's fiscal fourth quarter of 2005 and $5 million had been accrued in a prior year. In exchange for the payment, Papst has dismissed with prejudice its lawsuit pending against the Company, granted the Company a fully-paid license to certain patents owned by Papst, and released the Company of all past, present and future claims alleging infringement by the Company of those Papst patents. The Settlement and License Agreement resolved all outstanding litigation between the two companies without any admission of infringement by the Company.

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 for at September 30, 2005, 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.

8. New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends Accounting Research Board No. 43, Chapter 4, "Inventory Pricing." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material, and requires that these items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal." Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted SFAS 151 in its first quarter of fiscal year 2006. The adoption of SFAS 151 did not have a material impact on the Company's results of operations or financial position.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company adopted FIN 47 in its first quarter of fiscal year 2006. The adoption of FIN 47 did not have a material impact on the Company's results of operations or financial position.

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" ("APB Opinion No. 20") and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements", applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS 154 enhances the consistency of financial information between periods, and is effective for fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on its financial statements.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K as of and for the year ended July 1, 2005.

Unless otherwise indicated, references herein to specific years and quarters are to the Company's fiscal years and fiscal quarters. As used herein under Risk Factors That May Affect Future Results, the terms "we", "us" and "our" refer to Western Digital Corporation, and its subsidiaries.

Forward-Looking Statements

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

Examples of forward-looking statements include, but are not limited to statements concerning: growth in demand for and unit shipments of hard disk drives in the desktop PC market and factors contributing to such growth; the growth rate of the mobile computing market relative to the desktop PC market; expansion of the market for consumer applications for hard disk drives; the Company's expansion into the CE market and planned entrance into 1.0-inch hard disk drive market and use of hard disk drives in consumer products; expansion of the SATA interface in desktop PCs and growth and acceptance of SATA interfaces in enterprise hard disk drives; growth in demand for hard disk drives in the CE market (including multi-media applications) and mobile markets; increase in sales of notebook systems and the Company's on-going volume ramp of its Scorpio 2.5-inch hard disk drives; the Company's planned use of perpendicular recording in certain products; trends regarding areal density growth rates; the Company's expectations regarding traditional seasonal demand trends for the hard disk drive industry in the December quarter; the Company's expectations for revenue and gross margin percentage for the December quarter; the Company's expectations of seasonal price declines and expected operational efficiencies; the Company's expectations regarding its repurchase of stock under its stock repurchase program; the Company's expectations regarding capital expenditures for 2006; the Company's beliefs regarding the sufficiency of its cash, cash equivalents and short-term investments to meet its working capital needs; and the Company's expectations regarding its utilization of its liquidity and cash flows; and the Company's expectations regarding the impact of new accounting standards.

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

The Company

Western Digital Corporation designs, develops, manufactures and sells hard disk drives. A hard disk drive is a device that stores data on one or more rotating magnetic disks to allow fast access to data. Hard disk drives are one of the key components found in most computers and data storage subsystems.

The Company's hard disk drives are used in applications such as desktop personal computers ("PCs"), notebook computers, enterprise applications such as servers, workstations, network attached storage devices and storage area networks, and in consumer electronics ("CE") applications such as personal/digital video recorders ("DVRs") and satellite and cable set-top boxes ("STBs"). In addition, the Company's hard disk drives are used in external hard disk drive products that feature high speed buses such as 1394/FireWire™/iLink™, Universal Serial Bus ("USB") and Ethernet.

Hard disk drives provide non-volatile data storage, which means that the data is not lost when power is no longer applied to the device. The Company's hard disk drive products currently include 3.5-inch and 2.5-inch form factor drives. The 3.5-inch form factor drives have capacities ranging from 40 gigabytes ("GB") to 400 GB, nominal rotation speeds of 5400, 7200 and 10,000 revolutions per minute ("RPM"), and offer interfaces including Enhanced Integrated Drive Electronics ("EIDE") and Serial Advanced Technology Attachment ("SATA"). The 2.5-inch form factor drives have capacities ranging from 40 GB to 80 GB, nominal rotation speed of 5400 RPMs, and offer the EIDE interface. In addition, the Company has announced that it has plans to enter the 1.0-inch hard disk drive market in the future. The Company anticipates that 1.0-inch hard disk drive products could be used in a variety of handheld consumer devices such as digital audio players, digital still image cameras, digital video cameras and mobile phones. In addition, some mobile phone manufacturers and service providers have begun to integrate telephony, Internet and broadcast media.

The Company sells its products worldwide to original equipment manufacturers ("OEMs") for inclusion in computer systems or subsystems, and to distributors, resellers and retailers. The Company's hard disk drive products are currently manufactured in Malaysia and Thailand.

Market Overview

For calendar year 2004, the Company believes that the total market for hard disk drives was more than 300 million units, or almost $24 billion in sales. Over half of these unit shipments were to the desktop PC market. Thus, total hard disk drive unit growth depends greatly on developments in the PC market. WD believes that the demand for hard disk drives in the PC market will continue to grow in part due to:

- the overall growth of PC sales in established markets;
- the growth in emerging economies, such as Brazil, Russia, India and China, driving the increased deployment of personal computers;
- the increasing needs of businesses and individuals to store larger amounts of data on their PCs;
- the increasing sales of notebook computers that may have shorter replacement cycles and/or additional sales for individuals to have both a desktop and a notebook computer;
- the continuing development of software applications to manage multimedia content; and
- the increasing use of broadband Internet, including downloading content from the Internet onto PC hard disk drives.

The Company believes the rate of hard disk drive unit growth in the desktop PC market at present is affected by several factors, including maturing PC markets in North America and Western Europe, an increase in first-time buyers of PCs in Eastern Europe and Asia, the lengthening of PC replacement cycles and an increasing preference for notebook computers.

The Company currently expects the mobile computing market, which is primarily notebook computers, to grow faster than the desktop PC market over the next three years. Western Digital entered the mobile hard disk drive market in the first quarter of fiscal year 2005, commencing volume production of its WD Scorpio™ family of 2.5-inch hard disk drives for notebook computers.

As the market for consumer applications expands, additional investments by the Company will be required. For example, CE products such as handheld digital audio players currently utilize sub-2.5-inch form factor hard disk drives. In January 2005, Western Digital announced it has plans to enter the sub-2.5-inch hard disk drive market in the future with a 1.0-inch product. In addition, while CE products may require hard disk drives that are similar in nature to desktop hard disk drives, these products have often required specialized features or functions requiring additional development versus desktop products.

The enterprise market for hard disk drives focuses on customers that make workstations, servers, network attached storage devices, storage area networks, and other computing systems or subsystems. Western Digital serves this market with hard disk drives using the SATA interface. The SATA interface contains many of the same benefits of the small-computer-systems-interface, or “SCSI” — the predominant interface currently used in most enterprise hard disk drive applications. WD believes that the enterprise market has two distinct sub-markets: a marketplace for high performance enterprise hard disk drives and a marketplace for high capacity enterprise hard disk drives. The Company believes that acceptance of SATA in both of these enterprise sub-markets is growing. Additionally, WD offers high capacity, high reliability Parallel Advanced Technology Attachment (“PATA”) enterprise products to service video surveillance and similar PATA-based systems.

First Quarter Overview

WD’s net revenue for the first quarter of 2006 totaled $1.0 billion, an increase of 23% over the prior year’s first quarter and 7% over the fourth quarter of 2005. During the September quarter, 25% of WD’s revenue was derived from non-desktop PC sources including CE products, enterprise applications, notebook computers and retail sales as compared to 20% in the prior year. Gross margin increased to 17.7% in the first quarter of 2006 from 13.7% in the first quarter of 2005. Operating income for the first quarter was $68 million, an increase of $37 million over the prior year. Operating margins increased to 6.7% as a percentage of net revenue in the first quarter of 2006 compared with 3.8% in the first quarter of 2005. Western Digital generated $40 million in cash flow from operations during the first quarter of 2006 finishing the quarter with $581 million in cash, cash equivalents and short-term investments, a decrease of $17 million from the July 1, 2005 balance.

Western Digital currently anticipates traditional December quarter seasonal demand trends for the hard-disk drive industry. The Company also expects to benefit from the ongoing volume ramp of its 2.5-inch hard disk drives. Given these factors, the Company currently estimates revenue for the December quarter to be between $1.025 billion and $1.075 billion. WD also anticipates that the impact from modest seasonal price declines in the December quarter will be partially offset by continued operational efficiencies. As a result of these factors, gross margin percentage for the December quarter is currently estimated to be approximately the same as that of the September quarter.

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			
	SEPT. 30, 2005		OCT. 1, 2004	
Revenue, net	$ 1,010	100.0%	$ 824	100.0%
Gross margin	178	17.7	113	13.7
Total operating expenses	110	10.9	82	9.9
Operating income	68	6.7	31	3.8
Net income	69	6.8	30	3.7

Net Revenue

Net revenue was $1.0 billion for the first quarter of 2006, an increase of 23% or $186 million over the first quarter of 2005. Total unit shipments increased to 17.1 million for the first quarter of 2006 as compared to 14.2 million for the first quarter of 2005. This unit increase resulted from the Company’s higher desktop market share, stronger overall demand for hard disk drives in the desktop PC market and WD’s increasing focus on the non-desktop PC market. For example, WD shipped 1.1 million units to the mobile PC market in the first quarter of 2006 as compared to one thousand units in the first quarter of 2005. WD also shipped 1.3 million units to the DVR market in the first quarter of 2006 as compared to 0.6 million units in the first quarter of 2005. The increase in net revenue was also impacted by a $1 per unit increase in average selling prices (“ASPs”) over the first quarter of 2005 to $59 per unit for the first quarter of 2006. This improvement in ASPs was primarily attributable to an increase in the average storage capacity of hard disk drives sold in the first quarter of 2006.

Revenue contribution by geographic region for the first quarter of 2006 was 36% from the Americas, 29% from Europe and 35% from Asia compared to 40%, 30% and 30%, respectively, for the first quarter of 2005. These changes reflect the Company's continued focus on revenue growth in emerging geographic markets, primarily in Asia.

Revenue contribution by sales channel for the first quarter of 2006 was 55% from OEMs, 39% from distributors and 6% from the retail channel, compared to 59%, 35% and 6%, respectively, for the first quarter of 2005.

Gross Margin

Gross margin percentage increased to 17.7% for the three months ended September 30, 2005 from 13.7% for the three months ended October 1, 2004. The increase in gross margin percentage over the prior year was due to several factors, including: (1) manufacturing efficiencies resulting from higher production volumes, (2) higher manufacturing yields and lower customer returns resulting from ongoing quality improvements, (3) a more balanced sales channel mix between OEM and distribution customers and (4) a less aggressive pricing environment. During the three months ended September 30, 2005, the Company's warranty accrual for prior quarters' shipments was favorably adjusted by approximately $7 million as a result of the aforementioned improvements in quality and customer return rates.

Operating Expenses

Total operating expenses, consisting of research and development ("R&D") and selling, general and administrative ("SG&A"), were 10.9% of net revenue in the three months ended September 30, 2005, as compared to 9.9% of net revenue in the three months ended October 1, 2004. Operating expenses for the first quarter of 2006 increased by $29 million over the prior year. The increase in operating expenses was partially attributable to an increase in stock compensation of $7 million, of which $5 million related to the expensing of stock options and the Company's ESPP resulting from the adoption of SFAS 123-R.

R&D expense was $70 million for the three months ended September 30, 2005, an increase of $16 million over the three months ended October 1, 2004. The increase in R&D expense was primarily related to development of new product platforms in support of WD's entry into new markets, expenditures for advanced head technologies, an increase of $5 million in employee incentive compensation programs and $3 million for the expensing of stock options and the Company's ESPP.

SG&A expense was $40 million for the three months ended September 30, 2005, an increase of $13 million over the three months ended October 1, 2004. The increase in SG&A expense was primarily due to an expansion of sales resources to support increasing PC demand in certain geographic regions and the growing mobile and CE markets, $3 million of bad debt expense, an increase of $3 million in employee incentive compensation programs and $2 million for the expensing of stock options and the Company's ESPP.

Income Tax Provision

The Company's income tax provision for the three months ended September 30, 2005 was $1.6 million or 2.3% as a percentage of income before taxes. Differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia and Thailand that expire at various times ranging from 2008 to 2019.

Liquidity and Capital Resources

The Company's investment policy is to manage its investment portfolio to preserve principal and liquidity while maximizing return through the full investment of available funds. A large portion of Western Digital's available funds is invested in auction rate securities, which are short-term investments in bonds with original maturities greater than 90 days. Western Digital ended the first quarter of 2006 with total cash, cash equivalents and short-term investments of $581 million, a decrease of $17 million from July 1, 2005. The decrease in cash, cash equivalents and short-term investments was comprised of a $38 million decrease in short-term investments (see "Investing Activities" below), partially offset by an increase in cash and cash equivalents of $21 million. The following table summarizes the Company's statements of cash flows for the three months ended September 30, 2005 and October 1, 2004 (in millions):

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Net cash flow provided by (used for):		
Operating activities	$ 40	$ 93
Investing activities	(12)	(93)
Financing activities	(7)	(15)
Net increase (decrease) in cash and cash equivalents	$ 21	$ (15)

Operating Activities

Net cash provided by operating activities during the first quarter of 2006 was $40 million as compared to $93 million during the first quarter of 2005. Cash flow from operations consists of net income, adjusted for non-cash charges, plus or minus working capital changes. This represents the Company's principal source of cash. Net cash used to fund working capital changes was $72 million for the first quarter of 2006 as compared to net cash provided by working capital of $34 million for the first quarter of 2005.

Western Digital's working capital requirements depend upon the effective management of its cash conversion cycle, which measures how quickly a company can convert its products into cash through sales. The cash conversion cycles for the first quarters of 2006 and 2005 were as follows:

	THREE MONTHS ENDED	
	Sept. 30, 2005	Oct. 1, 2004
Days sales outstanding	42	44
Days in inventory	19	19
Days payables outstanding	(71)	(69)
Cash conversion cycle	(10)	(6)

The improvement in the cash conversion cycle for the first quarter of 2006 as compared to the first quarter of 2005 was primarily due to better alignment in the timing of the Company's inventory build and sales schedules. This improvement in the Company's cash conversion cycle was offset by payments for incentive compensation, a legal settlement, and prepayments to suppliers in the first quarter of 2006.

Investing Activities

Net cash used in investing activities for the first quarter of 2006 was $12 million as compared to $93 million for the first quarter of 2005. During the first quarter of 2006, cash used in investing activities consisted of $50 million for capital expenditures, partially offset by a $38 million net decrease in short-term investments. The net cash used in investing activities for the first quarter of 2005 consisted of $51 million for capital expenditures and $42 million for the purchase of short-term investments. Capital expenditures in the first quarters of both 2006 and 2005 were primarily related to assets purchased to upgrade the Company's head manufacturing capabilities, increased desktop and 2.5-inch hard disk drive production capabilities and for the normal replacement of existing assets. The decrease in short-term investments in the first quarter of 2006 as compared to the first quarter of 2005 was a result of sales of auction rate securities. For 2006, capital expenditures are expected to be approximately $275 million to $300 million. This increase in capital expenditures is expected to consist primarily of investments in advanced head technologies, new product platforms and capacity for WD's broadening and growing product portfolio.

Financing Activities

Net cash used in financing activities for the first quarter of 2006 was $7 million as compared to net cash used in financing activities of $15 million for the first quarter of 2005. The net cash used in financing activities for the first quarter of 2006 consisted of $14 million used for common stock repurchases and $5 million for debt payments partially offset by $12 million received upon issuance of common stock under employee plans. The net cash used in financing activities for the first quarter of 2005 consisted primarily of $14 million used for common stock repurchases and $5 million for debt payments partially offset by $5 million received upon issuance of common stock under employee plans.

Capital Commitments

Line of Credit —The Company has a $125 million credit facility ("Senior Credit Facility") consisting of a revolving credit line (subject to outstanding letters of credit and a borrowing base calculation) and a term loan of $34 million as of September 30, 2005. Both the revolving credit facility and the term loan 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. For the three months ended September 30, 2005, the Company had no borrowings on the revolving credit line and the average variable rate on the Company's term loan was 5.75%. The term loan requires quarterly principal payments of approximately $3 million. Principal payments made on the term loan increase the amount of revolving credit available. At September 30, 2005, $88 million was available for borrowing under the revolving credit line and the Company had $3 million in outstanding letters of credit. As of September 30, 2005 the Company was in compliance with all covenants related to the Senior Credit Facility.

Purchase Orders — In the normal course of business, the Company enters into purchase orders with suppliers for the purchase of hard disk drive components used to manufacture the Company's products. These purchase orders generally cover forecasted component supplies needed for production during the next quarter, are recorded as a liability upon receipt of the components, and generally may be changed or canceled at any time prior to shipment of the components. In some cases the Company may be obligated to pay for certain costs related to changes to, or cancellation of, a purchase order, such as costs incurred for raw materials or work in process.

The Company has entered into long-term purchase agreements with various component suppliers, which contain minimum quantity requirements. However, the dollar amount of the purchases may depend on the specific products ordered, achievement of pre-defined quality specifications or future price negotiations. In conjunction with these agreements, the Company has advanced approximately $33 million related to 2006 purchase commitments, which is included in other current assets as of September 30, 2005.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—"Capital Commitments" in the Company's Annual Report on Form 10-K as of and for the year ended July 1, 2005 for further discussion of the Company's purchase orders and purchase agreements and the associated dollar amounts.

The Company enters into, from time to time, other long-term purchase agreements for components with certain vendors. Generally, future purchases under these agreements are not fixed and determinable as they depend on the Company's overall unit volume requirements and are contingent upon the prices, technology and quality of the supplier's products remaining competitive. See below under the heading "Risk Factors That May Affect Future Results" for a discussion of these commitments.

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

Indemnifications — In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by us, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers in certain circumstances.

It is not possible to determine the maximum potential amount of exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements.

Stock Repurchase Program — WD announced a stock repurchase program on May 5, 2004. Under the program, the Company may purchase on the open market up to $100 million of its common stock depending on market conditions and other corporate considerations. Stock repurchases are expected to be funded principally by operating cash flow. During the first quarter of 2006, WD repurchased 1.1 million shares of common stock at a total cost of $14 million. In addition, between October 1, 2005 and November 4, 2005 the Company purchased 0.8 million shares at a cost of approximately $10 million. Since the inception of the program and through November 4, 2005, the Company has repurchased 8.6 million shares for a total cost of $85 million (including commissions). WD may continue to repurchase its stock as it deems appropriate and market conditions allow.

Western Digital believes its current cash, cash equivalents and short-term investments 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, WD's ability to sustain its working capital position is dependent upon a number of risks and other factors that may affect the Company's business. See 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 primarily to improve the efficiency and capability of its existing hard disk drive and head manufacturing operations.

Critical Accounting Policies

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

Revenue and Accounts Receivable

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

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

Western Digital 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

Western Digital records an accrual for estimated warranty costs when revenue is recognized. Warranty covers costs of repair or replacement of the hard disk drive over the warranty period, which generally ranges from one to five years. The Company has comprehensive processes with which to estimate accruals for warranty, which include specific detail on hard disk drives in the field by product type, historical field return rates and costs to repair. If actual product return rates or costs to repair returned products differ significantly from current expectations, a change in the warranty provision would be required. For a summary of historical changes in estimates related to pre-existing warranty provisions, refer to Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 2 "Supplemental Financial Statement Data" included in this Quarterly Report on Form 10-Q.

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 reduces inventory balances to net realizable value 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 balance adjustments that could negatively affect operating results.

Litigation and Other Contingencies

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

Deferred Tax Assets

Western Digital'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. The Company records estimated tax liabilities to the extent the contingencies are probable and can be reasonably estimated. However, the actual liability in any such tax contingencies may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially adjust previously recorded tax liabilities.

Stock-Based Compensation

Western Digital accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123-R, “Share-Based Payment” (“SFAS 123-R”). Under the fair value recognition provisions of SFAS 123-R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Under SFAS 123-R, the Company is required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual estimated forfeitures differ significantly from the original estimate, stock-based compensation expense and the Company’s results of operations could be materially impacted.

Prior to the adoption of SFAS 123-R, the Company accounted for stock-based employee compensation plans (including shares issued under the Company’s stock option plans and ESPP) in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and its related interpretations (“APB Opinion No. 25”), and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”).

The fair values of all stock options granted subsequent to December 31, 2004 were estimated using a binomial model and the fair values of all options granted prior to December 31, 2004 and all Employee Stock Purchase Plan shares were estimated using the Black-Scholes-Merton option pricing model. Both the binomial and the Black Scholes models require the input of highly subjective assumptions.

New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs” (“SFAS 151”). SFAS 151 amends Accounting Research Board No. 43, Chapter 4, “Inventory Pricing.” This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material, and requires that these items be recognized as current period charges regardless of whether they meet the criterion of “so abnormal.” Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted SFAS 151 in its first quarter of fiscal year 2006. The adoption of SFAS 151 did not have a material impact on the Company’s results of operations or financial position.

In March 2005, the FASB issued FIN 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability’s fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company adopted FIN 47 in its first quarter of fiscal year 2006. The adoption of FIN 47 did not have a material impact on the Company’s results of operations or financial position.

In June 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS 154”). SFAS 154 replaces Accounting Principles Board Opinion No. 20, “Accounting Changes” (“APB Opinion No. 20”) and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”, applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS 154 enhances the consistency of financial information between periods, and is effective for fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material impact on its financial statements.

Risk Factors That May Affect Future Results

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

The hard disk drive industry historically has experienced declining ASPs. Our ASPs tend to decline 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. Our ASPs also decline when there is a shift in the mix of product sales, and sales of lower priced products increase relative to those of higher priced products.

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

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

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

our operating results could be adversely affected.

Product life cycles influence our financial results.

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

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

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

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

Currently the hard disk drive industry uses giant magnetoresistive head technology, which allows significantly higher storage capacities than the previously utilized thin-film head technology. However, the industry is developing and now implementing 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, each of which represent a significant change in fundamental recording technology. The industry is experiencing a fundamental shift in recording technology, and hard disk drive manufacturers 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 difficulty of introducing hard disk drives with higher levels of areal density and the challenges of reducing other costs may impact our ability to achieve historical levels of cost reduction.

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

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

Historically, the industry has experienced periods of increased areal density growth rates. Although in recent years there has been a decrease in the rate of areal density growth, if industry conditions return to periods of increased growth rates, the rate of increase in areal density may exceed the increase in our customers’ demand for aggregate storage capacity. This could lead to our customers’ storage capacity needs being satisfied with lower capacity hard disk drives at lower prices, thereby decreasing our revenue. As a result, even with increasing aggregate demand for storage capacity, our ASPs could decline, which could adversely affect our results of operations.

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

Over the past few years the consumer market for desktop computers has shifted significantly towards lower priced systems. If we are not able to offer a competitively priced hard disk drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results.

The market for hard disk drives is also fragmenting into a variety of devices and products. Many industry analysts expect, as do we, that as communications are increasingly converted to digital technology from the older, analog technology, the technology of computers and consumer electronics will continue to converge, and hard disk drives will be found in many CE products other than computers.

In addition, we expect that the consumer market for multi-media applications, including audio-video products, incorporating high capacity, handheld consumer storage will continue to grow. However, because this market remains relatively new, accurate forecasts for future growth remain challenging. Moreover, some of the devices, such as personal video recorders and digital video recorders, or other products outside of the CE market, may require attributes not currently offered in our products, which have resulted in a need to expend capital to develop new interfaces, form factors, technical specifications or hard disk drive features, increasing our overall operational expense without corresponding incremental revenue at this stage. If we are not successful in using our hard disk drive technology and expertise to develop new products for the emerging CE market, or if we are required to incur significant costs in developing such products, it may harm our operating results.

Current or future competitors may gain a technology advantage or develop an advantageous cost structure that we cannot match.

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

Higher capacity storage needs have typically been better served by magnetic hard disk drives than flash memory as hard disk drive manufacturers can offer better value at high capacities, while lower capacity needs are usually adequately served by solid state storage such as NAND flash memory technology. 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. High-speed semiconductor memory has begun to compete with sub-2.5-inch hard disk drive products, and we have announced plans to introduce a 1.0-inch hard disk drive product in the future.

A low cost structure is important to the success of our business. If our competitors are able to achieve a lower cost structure for manufacturing hard disk drives, and we are unable to match their cost structure, we could be at a competitive disadvantage to those competitors as they may be able to sell hard disk drives at lower prices while remaining profitable.

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

To remain a significant supplier of hard disk drives, we will need to offer a broad range of hard disk drive products to our customers. We currently offer a variety of 3.5-inch hard disk drives for the desktop computer, enterprise, CE and external storage markets, and we also offer 2.5-inch form factor hard disk drives for the mobile, CE and external storage markets. However, demand for hard disk drives may shift to products in smaller form factors, which our competitors may already offer. We have announced that we have plans to enter into the sub-2.5-inch hard disk drive market in the future with a 1.0-inch hard disk drive product. We face various challenges in manufacturing a 1.0-inch hard disk drive because it requires the development of new manufacturing technologies and processes. If we are not able to adequately address these challenges, our expected shipment of this product may be delayed, resulting in a delay in our ability to realize revenue from this product.

In addition, the enterprise and desktop PC markets are transitioning from the PATA interface to higher speed interfaces such as SATA to handle higher data transfer rates. We currently offer SATA products; however, the transition of technology and the introduction of new products are challenging and create risks. For example, acceptance of the SATA interface may not continue to grow, or customers may choose to purchase alternative interfaces that may not be compatible with future generations of SATA hard disk drives. Moreover, our customers may require new SATA features that we may not be able to deliver in a timely and cost effective manner.

While we continue to develop new products and look to expand into other applications, 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 may 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.

If we do not successfully continue to expand into the mobile computer market, our business may suffer.

We began shipping 2.5-inch form factor hard disk drives for the mobile market during calendar year 2004. Although many of our customers who purchase 3.5-inch form factor hard disk drives also purchase the 2.5-inch form factor drives, the markets are characterized by different competitors, different sales channels and different overall requirements. If we are unable to adapt to these differences and meet the new requirements, we would have a competitive disadvantage to companies that are successful in this regard, and our business and financial results could suffer. In addition, if we continue to incur significant costs in manufacturing and selling the 2.5-inch hard disk drives, and if we are unable to recover those costs from sales of the products, then we may not be able to compete successfully in this market and our operating results may suffer.

Sales in the distribution channel are important to our business, and if we fail to maintain brand preference with our distributors or if distribution markets for hard disk drives weaken, our operating results could suffer.

Our distribution customers typically sell to small computer manufacturers, dealers, systems integrators and other resellers. We face significant competition in this channel as a result of limited product qualification programs and a significant focus on price and availability of product. If we fail to remain competitive in terms of our technology, quality, service and support, our distribution customers may favor our competition, and our operating results could suffer. We also face significant risk in the distribution market for hard disk drives. If the distribution market weakens as a result of a slowing PC growth rate, technology transitions or a significant change in consumer buying preference from white box to branded PCs, or we experience significant price declines due to oversupply in the distribution channel, then our operating results would be adversely affected.

Selling to the retail market is an important part of our business, and if we fail to maintain and grow our market share or gain market acceptance of our retail products, our operating results could suffer.

We sell our retail-packaged products directly to a select group of major retailers such as computer superstores and CE stores, and authorize sales through distributors to other retailers. Our current retail customer base is primarily in the United States, Canada and Europe. We are facing increased competition from other companies for shelf space at major retailers, which could result in lower gross margins. If we fail to successfully maintain a customer preference for Western Digital brand products, our operating results may be adversely affected. In certain markets, we are trying to grow market share, and in the process may face strong competition, which could result in lower gross margins. We will continue to introduce new products in the retail market that incorporate our disk drives. There can be no assurance that these products gain market acceptance, and if they do not, our operating results could suffer.

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

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

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

Certain components are available from a limited number of suppliers. Because we depend on a limited number of suppliers for certain hard disk drive components and manufacturing equipment, an increase in the cost of such components or equipment, an extended shortage of required components or equipment, failure of a key supplier's business process, or the failure of key suppliers to remain in business, adjust to market conditions, or to meet our quality, yield or production requirements could significantly harm our operating results. Our future operating results may also depend substantially on our suppliers' ability to timely qualify their components in our programs, and their ability to supply us with these components in sufficient volumes to meet our production requirements. A number of the components that we use are available from only a single or limited number of qualified outside suppliers, and may be used across multiple product lines. 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. For example, the hard disk drive industry is currently facing a tightness in the availability of media (rotating magnetic disks) components, and there are currently only three suppliers of aluminum media and three suppliers of glass media in the market. We may experience production delays if we are unable to obtain the necessary components or sufficient quantities of components. If a component becomes unavailable, we could suffer significant loss of revenue.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying these components. As a result, we may be subject to cancellation charges if we cancel orders, which may occur when we make technology transitions or when our component needs change. In addition, we may enter into contractual commitments with certain component suppliers in an effort to increase and stabilize the supply of those components, and enable us to purchase such components at favorable prices. These commitments may require us to buy a substantial number of components from the supplier or make significant cash advances to the supplier.

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.

Rising costs of commodity materials may result in lower operating margins.

The cost and availability of certain commodity materials used to manufacture hard disk drives and key components is critical to our success. Shortages of materials such as steel and aluminum increase our costs and may result in lower operating margins if we are unable to find ways to mitigate these increased costs. The rising cost of oil also increases our costs and may result in lower operating margins if we are unable to pass such increased costs through to our customers.

Our head manufacturing operations may result in additional costs and risks to our business.

Our vertical integration of head manufacturing has resulted in a fundamental change in our operating structure, as we are now manufacturing heads for use in the hard disk drives we manufacture. Consequently, we make more capital investments than we would if we were not vertically integrated and carry a higher percentage of fixed costs than assumed in our prior financial business model. If the overall level of production decreases for any reason, and we are unable to reduce our fixed costs to match sales, our head manufacturing assets may face under-utilization that may impact our results of operations. We are therefore subject to additional risks related to overall asset utilization, including the need to operate at high levels of utilization to drive competitive costs, and the need for assured supply of components, especially hard disk drive media, that is optimized to work with our heads.

In addition, we may incur additional risks, including:

- insufficient 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 continue to do business with us or may not do business with us on the same terms and conditions we have previously enjoyed;
- claims that our manufacturing of heads may infringe certain intellectual property rights of other companies; and
- difficulties locating suitable manufacturing equipment for our head manufacturing processes and replacement parts for such equipment.

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

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

As a result of our head manufacturing operations, we are developing and manufacturing a substantial portion of the heads used in the hard disk drives we manufacture. Consequently, we are more dependent upon our own development and execution efforts and less able to take advantage of head technologies developed by other head manufacturers. Technology transition for head designs is critical to increasing our volume production of heads. 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 effectively transition our head design and head technology in order to achieve acceptable manufacturing yields using such technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the heads we manufacture. In addition, we may not have access to external sources of supply without incurring substantial costs. For example, we anticipate using perpendicular recording heads in certain products in the future. If we fail to develop new technologies such as perpendicular recording in a timely manner, or if we encounter quality problems with the heads we manufacture, and if we do not have access to external sources of supply that incorporate new technologies, we would have a competitive disadvantage to companies that are successful in this regard, and our business and financial results could suffer.

We have high-volume hard disk drive manufacturing facilities in Malaysia and Thailand, which subjects us to the risk of damage or loss of any of these facilities.

Our hard disk drives are manufactured in facilities in Malaysia and Thailand. A fire, flood, earthquake or other disaster, condition or event such as a power outage that adversely affects any of these facilities or our ability to manufacture could limit the total volume of hard disk drives we are able to manufacture and result in a loss of sales and revenue and harm our operating results.

Our head manufacturing operations include a single wafer fabrication facility in Fremont, California and a single head gimbal/head stack assembly facility in Bang Pa-In, Thailand, which subjects us to the risk of damage or loss to either of these facilities.

We design and manufacture a substantial portion of the heads required for the hard disk drives we manufacture. We fabricate wafers in our Fremont, California facility, and the wafers are then sent to our Thailand facility for slider fabrication/wafer slicing, HGA assembly and testing, and HSA assembly and testing. A fire, flood, earthquake or other disaster, condition or event such as a power outage that adversely affects our facility in Fremont, California or Bang Pa-In, Thailand would significantly affect our supply of heads and limit our ability to manufacture hard disk drives and could result in a loss of sales and revenue and harm our operating results.

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 of America and foreign governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest;
- limited transportation availability, delays, and extended time required for shipping, which risks may be compounded in periods of price declines;
- 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.

Fluctuations in currency exchange rates as a result of our international operations may negatively affect our operating results.

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 and of the Malaysian Ringgit may negatively impact our operating results.

The Thai Baht is a free floating currency while the Malaysian Ringgit exchange rate policy recently defined by the Malaysian government is one of a managed float. We have attempted to manage the impact of foreign currency exchange rate changes by, among other things, entering into short-term, forward contracts. However, these contracts do not cover our full exposure and can be canceled by the issuer if currency controls are put in place. Currently, we hedge the Thai Baht, Euro and British Pound Sterling with forward contracts.

If the U.S. dollar exhibits sustained weakness against most foreign currencies, 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.

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.

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

The price of hard disk drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or attempting to gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and increase the risk of inventory obsolescence. We also face competition from other companies that produce alternative storage technologies like flash memory. These factors, taken together, may 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.

Some of our competitors with diversified business units outside the hard disk drive industry may be able to sell disk drives at lower margins that we cannot match.

Some of our competitors earn a significant portion of their revenue from business units outside the hard disk drive industry. Because they do not depend solely on sales of hard disk drives to achieve profitability, they may be able to sell hard disk drives at lower margins and still remain profitable. In addition, if these competitors can increase sales of non-hard disk drive products to the same customers, they may benefit from selling their hard disk drives at low margins. Our results of operations may be adversely affected if we can not successfully compete with these companies.

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

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

We are currently evaluating notices of alleged patent infringement or notices of patents from patent holders. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. In addition, we may decide to settle a claim or action against us, which settlement could be 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 depend on our key personnel and skilled employees.

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

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

Demand for our hard disk drives depends on the demand for systems manufactured by our customers and on storage upgrades to existing systems. The demand for systems has been volatile in the past and often has had an exaggerated effect on the demand for hard disk drives in any given period. As a result, the hard disk drive market has experienced periods of excess capacity which can lead to liquidation of excess inventories and 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.

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

The hard disk drive industry faces difficulties in accurately forecasting market and customer demand for its products. The variety and volume of products we manufacture is based in part on these forecasts. If our forecasts exceed actual market demand, or if market demand decreases significantly from our forecasts, then we could experience periods of product oversupply and price decreases, which could impact our financial performance. If our forecasts do not meet actual market demand, of if market demand increases significantly beyond our forecasts, then we may not be able to satisfy customer product needs, which could result in a loss of market share if our competitors are able to meet customer demands.

We also use forecasts in making decisions regarding investment of our resources. For example, as the hard disk drive industry transitions from the PATA interface to the SATA interface, we may invest more resources in the development of products using the SATA interface. If our forecasts regarding the replacement of the PATA interface with the SATA interface are inaccurate, we may not have products available to meet our customers' needs.

In addition, although we receive forecasts from our customers, they are not obligated to purchase the forecasted amounts. In particular, sales volumes in the distribution channel are volatile and harder to predict than sales to our OEM customers. We consider these forecasts in determining our component needs and our inventory requirements. If we fail to accurately forecast our customers' product demands, we may have inadequate or excess inventory of our products or components, which could adversely affect our operating results.

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

A majority of our revenue comes from a few customers. For example, during the first quarter of 2006, one customer, Dell, accounted for 11% of our revenue, and sales to our top 10 customers, including Dell, accounted for 48% of revenue. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. 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 cancel an order or 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, 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, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship then 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.

Environmental costs could harm our operating results.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate, including various European Union member countries. For example, the European Union has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) and the Waste Electrical and Electronic Equipment (WEEE) directives. RoHS prohibits the use of certain substances, including lead, in certain products, including hard disk drives, put on the market after July 1, 2006. The WEEE directive obligates parties that place electrical and electronic equipment onto the market in the EU to put a clearly identifiable mark on the equipment, register with and report to EU member countries regarding distribution of the equipment, and provide a mechanism to take-back and properly dispose of the equipment. Each EU member country has enacted, or is expected to soon enact, legislation clarifying what is and what is not covered by the WEEE directive in that country. However, there is still some uncertainty in certain EU countries as to which party involved in the manufacture, distribution and sale of electronic equipment will be ultimately responsible for registration, reporting and disposal. Similar legislation may be enacted in other locations where we manufacture or sell our products. We will need to ensure that we comply with such laws and regulations as they are enacted, and that our component suppliers also timely comply with such laws and regulations. If we fail to timely comply with the legislation, our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and results of operations.

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

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

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

Our standard warranties contain limits on damages and exclusions of liability for consequential damages and for misuse, improper installation, alteration, accident or mishandling while in the possession of someone other than us.. 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.

Increases in our customers' credit risk could result in credit losses and an increase in our operating costs.

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

Terrorist attacks may adversely affect our business and operating results.

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. 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.

Our failure to timely and efficiently transition our enterprise resource planning software from the version we currently use to a new version, or our failure to maintain our current software, 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 as a result of the transition or otherwise 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.

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

We often ship a high percentage 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 availability of components that we obtain from a single or a limited number of suppliers;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PCs often due to technological advances; and
- availability and rates of transportation.

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

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

- accruals for warranty costs related to product defects;

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

The market price of our common stock is volatile.

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

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

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

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

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

Due to the risks described herein, in the future we may be unable to maintain adequate financial resources for capital expenditures, expansion or acquisition activity, working capital and research and development. We have a credit facility which matures on September 19, 2008. 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.

If our internal controls are found to be ineffective in future periods, our financial results or our stock price may be adversely affected.

Our evaluation resulted in our conclusion that as of September 30, 2005, in compliance with Section 302 of the Sarbanes-Oxley Act of 2002, our disclosure controls and procedures were effective at the reasonable assurance level. We believe that we currently have adequate internal control procedures in place for future periods; however, if our internal controls are found to be ineffective in future periods, our financial results or our stock price may be adversely affected.

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 expenses. The contract maturity dates do not exceed six months. The Company does not purchase short-term forward exchange contracts for speculative purposes. Currently, the Company focuses on hedging its foreign currency risk related to the Thai Baht, the Euro and the British Pound Sterling. Thai Baht contracts are designated as cash flow hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, while all other contracts are designated as fair value hedges under Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation."

As of September 30, 2005, the Company had the following purchased foreign currency forward exchange contracts outstanding (in millions, except weighted average contract rate):

	September 30, 2005		
	Contract Amount	Weighted Average Contract Rate*	Unrealized Gain (Loss)
Foreign currency forward contracts:			
Thai Baht	$ 132.7	41.18	$ (0.2)
Euro	$ 1.7	0.83	—
British Pound Sterling	$ 1.2	0.57	—

* Expressed in units of foreign currency per dollar.

During the three month periods ended September 30, 2005 and October 1, 2004, total realized transaction and forward exchange contract currency gains and losses were not material to the 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 would bear interest at either LIBOR (with option periods of one to three months) or a base rate, plus a margin. If LIBOR or the base rate increases, the Company's interest payments would also increase. At September 30, 2005, the Company had a $34 million term loan outstanding under the Senior Credit Facility. A one percent increase in the variable rate of interest on the Senior Credit Facility would increase interest expense by approximately $0.3 million annually.

Item 4. *CONTROLS AND PROCEDURES*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 as of September 30, 2005, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

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

PART II. OTHER INFORMATION

Item 1. *LEGAL PROCEEDINGS*

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

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

(c) The following table provides information about repurchases by the Company of its common stock during the quarter ended September 30, 2005:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Value of Shares that May Yet be Purchased Under the Program(1)
July 2, 2005 — July 29, 2005	—	$ —	—	$ 39,297,114
July 30, 2005 — August 26, 2005	—	$ —	—	$ 39,297,114
August 27, 2005 — September 30, 2005	1,071,814(2)	$ 13.28	1,062,600	$ 25,185,277
Total	1,071,814	$ 13.28	1,062,600	$ 25,185,277

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

(2) Represents 1,062,600 shares purchased in open-market transactions and 9,214 shares delivered by employees to the Company to satisfy tax-withholding obligations upon the vesting of restricted stock.

The Company's $125 million Senior Credit Facility prohibits the Company from paying cash dividends on its common stock.

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Item 6. ***EXHIBITS***

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on April 6, 2001 (Incorporated by reference to the Company’s Current Report on Form 8-K (File No. 1-08703), as filed with the Securities and Exchange Commission on April 6, 2001)
3.2	Certificate of Amendment of Certificate of Incorporation of Western Digital Corporation, filed with the office of the Secretary of State of the State of Delaware on January 8, 2002 (Incorporated by reference to the Company’s Registration Statement on Form S-8 (File No. 333-107227), as filed with the Securities and Exchange Commission on July 22, 2003)
3.3	Amended and Restated Bylaws of Western Digital Corporation, as adopted September 20, 2005, Incorporated by reference to the Company’s Current Report on Form 8-K (File No. 1-08703), as filed with the Securities and Exchange Commission on September 26, 2005)
10.15	Employment Agreement, dated as of August 25, 2005, between Western Digital Corporation and Matthew E. Massengill (Incorporated by reference to the Company’s Current Report on Form 8-K (File No. 1-08703), as filed with the Securities and Exchange Commission on October 26, 2005) *
10.24.1	First Amendment to Sublease, dated as of September 28, 2005, by and between Advanced Logic Research, Inc. and Western Digital Technologies, Inc. †
10.32.3	Third Amendment to Amended and Restated Credit Agreement, dated as of September 30, 2005, by and among Western Digital Technologies, Inc., Western Digital (Fremont), Inc., the other credit parties and guarantors thereto, General Electric Capital Corporation and Bank of America, N.A.†
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†

† Exhibit filed with this Report.

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

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SIGNATURES

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

WESTERN DIGITAL CORPORATION
Registrant

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

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

Date: November 8, 2005

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EXHIBIT INDEX

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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†

† Exhibit filed with this Report.

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

Exhibit 10.24.1

FIRST AMENDMENT TO SUBLEASE
(26140 Enterprise Way, Lake Forest, CA**)**

THIS FIRST AMENDMENT TO SUBLLEASE (this “**First Amendment**”) is dated as of September 28, 2005, between **ADVANCED LOGIC RESEARCH, INC.,** a Delaware corporation (“Sublandlord”), and **WESTERN DIGITAL TECHNOLOGIES, INC**., a Delaware corporation (“Subtenant”).

R E C I T A L S

WHEREAS, by that certain Amended and Restated Standard Lease [Single Tenant — Triple Net] dated as of June 21, 1999 (the “Original Prime Lease”), as amended by that certain First Amendment to Lease dated as of January 27, 2000 (the “First Amendment”), a copy of which instruments are attached hereto as Exhibit “A” and by this reference made a part hereof (hereinafter, with all such amendments, called the “Prime Lease”), MSGW CALIFORNIA I, LLC, a Delaware limited liability company (hereinafter, together with its successors and assigns, called “Landlord”), leased to GATEWAY, INC., a Delaware corporation (formerly known as Gateway 2000, Inc.) three (3) buildings (known as Buildings 1, 2 and 3) located in Lake Forest, Orange County, California, which buildings contain, collectively, approximately 150,000 Rentable Square Feet (the “Prime Lease Space”).

WHEREAS, pursuant to that certain Assignment of Lease and Assumption Agreement dated as of June 21, 1999, Gateway, Inc. assigned all of its right, title and interest in and to the Prime Lease to Sublandlord.

WHEREAS, Sublandlord and Subtenant entered into that certain Sublease dated May 2005 (the “**Original Sublease**”), whereby Sublandlord leases to Subtenant, and Subtenant leases from Sublandlord, a portion of the Prime Lease Space that is comprised of a portion of Building 2 located at 26140 Enterprise Way in Lake Forest, Orange County, California.

WHEREAS, the Subtenant has exercised Subtenant’s Right to Measure the Premises.

WHEREAS, Sublandlord and Subtenant now mutually desire to amend the Sublease pursuant to and in accordance with the terms and condition of this First Amendment to reflect the actual rentable square footage of the Premises and to confirm other facts regarding the Sublease.

NOW THEREFORE, in consideration of the foregoing Recitals, the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant agree, and amend the Sublease.

1. Definitions. Unless otherwise defined in this First Amendment, terms that are capitalized in this First Amendment shall be given the meaning ascribed to them in the Sublease.

2. Certain Dates: The parties hereby stipulate and agree that (i) the words “May ___, 2005” are deleted in the introductory paragraph of the Sublease and the following date substituted in lieu thereof: “June 2, 2005”; (ii) the “Commencement Date” is June 13, 2005; and (iii) the “Rent Commencement Date” is June 29, 2005.

3. Rentable Square Feet of Premises: The parties hereby stipulate and agree that for all purposes under the Sublease, the rentable square footage of the Premises is 17,808 square feet.

4. Base Rent: The rent table and the accompanying Note contained in Section 3(a) of the Sublease are hereby deleted and the following rent table and accompanying Note are hereby substituted in its place:

Time Period	Annual Base Rent Rate Per Rentable Square Foot	Annual Base Rent (based on 17,808 Rentable Square Feet)	Monthly Installments
Months 1-3 June, July, August 2005)	$ 0.00	$ 0.00	$ 0.00
Months 4-12 (September 2005 to May 2006)	$ 10.80	$192,326.40	$16,027.20
Months 13-24 (June 2006 to May 2007)	$11.124	$198,096.19	$16,508.01
Months 25-36 (June 2007 to May 2008)	$11.457	$204,026.25	$17,002.18
Months 37-48 (June 2008 to May 2009)	$11.800	$210,134.40	$17,511.20
Months 49-60 (June 2009 to May 2010)	$12.154	$216,438.43	$18,036.53
Months 61-72 (June 2010 to May 2011)	$12.519	$222,938.35	$18,578.19
Months 73 (June 2011) -January 31, 2012*	$12.894	$229,616.35	$19,134.69

The parties agree that due to the overpayment by Subtenant of Base Rent in the amount of $1177.20 for each of the months of September and October, 2005, Subtenant shall be entitled to deduct from its Base Rent payment due for November, 2005 the sum of $2,354.00.

---

* Note: Sublandlord and Subtenant further acknowledge and agree that as the expiration of the term of this Sublease is January 31, 2012, the eighth Lease Year (commencing in month 73 as shown on the schedule above) shall be less than a full twelve (12) calendar month period and accordingly the Annual Base Rent and Monthly Installments set forth in the schedule above shall be prorated for the actual days occurring within the final time period of this Sublease commencing with Month 73.

5. Subtenants Percentage Share. The first sentence of Paragraph 4(a)(2) is hereby deleted and the following new first sentence is substituted in its place:

> "Subtenant's Percentage Share" for purposes of Tenant's Common Area Percentage (as defined in the Prime Lease) shall mean 11.87% and "Subtenant's Percentage Share" for purposes of Tenant's Building Percentage (as defined in the Prime Lease) shall mean 35.62%."

6. Sublease Interpretation. The Sublease shall be interpreted and construed whenever and wherever necessary to give effect to the amendments set forth herein.

7. Governing Law. This First Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

8. Counterparts. This First Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. Signature pages may be detached from the counterparts and attached to a single copy of this First Amendment to physically form one document.

9. Reaffirmation of Obligations. Subtenant and Sublandlord each hereby acknowledges and reaffirms its obligations under the Sublease, as such Sublease has been amended by this First Amendment, and agrees that any reference made in any other document to the Sublease shall mean the Sublease as amended pursuant to this First Amendment. Except as expressly provided herein, the Sublease remains unmodified and in full force and effect. Any breach by Subtenant or Sublandlord of this First Amendment, including any exhibit hereto, and the expiration of any applicable notice or cure period set forth in the Sublease, shall constitute a breach and default by Subtenant or Sublandlord, respectively, under the Sublease.

IN WITNESS WHEREOF, Sublandlord and Subtenant have caused this First Amendment to be duly executed and delivered as of the date first above written.

"SUBLANDLORD"

ADVANCED LOGIC RESEARCH, INC.,
a Delaware corporation

By: /s/ Garrison Jaquess
Its: Sr. Director

Exhibit 10.32.3

THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT ("Amendment") is entered into as of September 30, 2005, by and among WESTERN DIGITAL TECHNOLOGIES, INC., a Delaware corporation ("Borrower"), WESTERN DIGITAL (FREMONT), INC., a Delaware corporation ("WD Fremont"), the other credit parties and guarantors party hereto (each individually a "Credit Party" and collectively, the "Credit Parties"), the lenders signatory hereto (each individually a "Lender" and collectively the "Lenders"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as administrative agent for Lenders (in such capacity, "Agent"), and BANK OF AMERICA, N.A., as documentation agent for Lenders ("Documentation Agent"; Agent and Documentation Agent are collectively referred to as "Co-Agents" and each, a "Co-Agent").

RECITALS

A. Borrower, WD Fremont, the other Credit Parties party thereto, Lenders, and Co-Agents have entered into the Amended and Restated Credit Agreement dated as of September 19, 2003, as amended by the First Amendment to Amended and Restated Credit Agreement dated as of September 8, 2004, and the Second Amendment to Amended and Restated Credit Agreement dated as of April 22, 2005 (collectively, "Credit Agreement"), pursuant to which Co-Agents and Lenders are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied herein as defined or established therein.

B. Borrower has requested that Agent and Lenders amend the Credit Agreement, and Agent and Lenders are willing to do so subject to the terms and conditions of this Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the continued performance by Borrower and each other Credit Party of their respective promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, the other Credit Parties signatory hereto, Lenders, and Co-Agents hereby agree as follows:

1. Ratification and Incorporation of Credit Agreement. Except as expressly modified under this Amendment, (a) each Credit Party hereby acknowledges, confirms, and ratifies all of the terms and conditions set forth in, and all of its obligations under, the Credit Agreement and the other Loan Documents, and (b) all of the terms and conditions set forth in the Credit Agreement are incorporated herein by this reference as if set forth in full herein.

2. Consent. Pursuant to the Consent under Amended and Restated Credit Agreement dated as of June 24, 2004, Agent and Requisite Lenders previously consented to Borrower and WD Fremont entering into a Master Equipment Lease Agreement with CIT Technologies Corporation, d/b/a CIT Systems Leasing, a copy of which is attached hereto as **Appendix B** (the "CIT Lease"), covering the specific items of equipment set forth in Exhibit A to Schedules 1 and 2 to the CIT Lease as of June 24, 2004 (the "Original Leased Equipment"). Borrower has requested in the letter attached hereto as **Appendix A** that Agent and Requisite

Lenders consent to WD Fremont entering into Schedule 4 (including Exhibit A thereto) to the CIT Lease covering certain leased Equipment described therein (the "Additional Leased Equipment") and agree to release the Agent's Liens on the Additional Leased Equipment. At the request of the Credit Parties, Agent and Lenders hereby consent to Borrower and WD Fremont entering into the additional schedules to the CIT Lease and agree (a) to release the Liens of Agent, on behalf of Co-Agents and Lenders, on the Additional Leased Equipment and (b) that no Default or Event of Default has occurred as a result of WD Fremont entering into Schedule 4 (including Exhibit A thereto) to the CIT Lease.

3. Amendment to Credit Agreement.

(a) Clause (k) of the definition of the term "Permitted Encumbrances" in **Annex A** to the Credit Agreement is hereby deleted in its entirety and the following is substituted in lieu therefor:

> (k) Liens created after the Closing Date by conditional sale or other title retention agreements (including Capital Leases) or in connection with purchase money Indebtedness with respect to Equipment and Fixtures (i) that constitute the Original Leased Equipment, or (ii) otherwise acquired by any Credit Party in the ordinary course of business during the period from September 30, 2005, through September 30, 2006, involving the incurrence of an aggregate amount of purchase money Indebtedness and Capital Lease Obligations (including obligations of WD Fremont with respect to the Additional Leased Equipment) of not more than $25,000,000 outstanding at any one time for all such Liens (provided that such Liens attach only to the assets subject to such purchase money debt and such Indebtedness is incurred within 90 days following the purchase of such Equipment or Fixtures and does not exceed 100% of the purchase price of the subject assets) so long as Borrower and its Subsidiaries (other than Excluded Subsidiaries) shall have Available Liquidity in excess of $200,000,000 at the time that such Credit Party enters into such purchase money debt or Capital Lease;

(b) The following definition is hereby added to Annex A to the Credit Agreement in appropriate alphabetical order:

> "Additional Leased Equipment" shall mean the specific items of leased Equipment described in Exhibit A to Schedule 4 to the CIT Lease.
>
> "CIT Lease" shall mean the Master Equipment Lease Agreement between CIT Technologies Corporation, d/b/a CIT Systems Leasing, and Borrower and WD Fremont dated as of June 24, 2004, and the schedules and exhibits thereto.
>
> "Original Leased Equipment" shall mean the specific items of leased Equipment described in Exhibit A to Schedules 1 and 2 to the CIT Lease as of June 24, 2004.

(c) Paragraph (A) of **Annex I** to the Credit Agreement is amended by replacing the reference to "Winston & Strawn LLP" and all information related thereto with the following:

DLA Piper Rudnick Gray Cary US LLP
1999 Avenue of the Stars, Fourth Floor
Los Angeles, California 90067
Attn: Gary B. Rosenbaum, Esq,
Telecopier No.: (310) 595-3300
Telephone No.: (310) 595-3000

4. Conditions to Effectiveness. The effectiveness of this Amendment is subject to satisfaction of each of the following conditions:

(a) receipt by Agent of this Amendment duly executed by Borrower, WD Fremont, WD UK, WD IS, Agent and Lenders; and

(b) payment of $12,500 by Borrower to Agent, for the ratable benefit of Lenders; and

(c) the absence of any Defaults or Events of Default as of the date hereof.

5. Entire Agreement. This Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof.

6. Representations and Warranties. Borrower and each other Credit Party hereby represents and warrants that the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date or (b) Borrower or any other Credit Party, as applicable, has previously advised Agent in writing as contemplated under the Credit Agreement, are true and correct in all material respects as of the date hereof.

7. Reaffirmation by Guarantors. Each Guarantor, by its execution of this Amendment, consents to the terms hereof and ratifies and reaffirms all of the provisions of the Guaranties.

8. Miscellaneous.

(a) This Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart thereof.

(b) Section headings used herein are for convenience of reference only, are not part of this Amendment, and are not to be taken into consideration in interpreting this Amendment.

(c) The recitals set forth at the beginning of this Amendment are true and correct, and such recitals are incorporated into and are a part of this Amendment.

(d) Upon the effectiveness of this Amendment, from and after the date hereof, each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” or words of like import shall mean and be a reference to the Credit Agreement as amended hereby and each reference in the other Loan Documents to the Credit Agreement, “thereunder,” “thereof,” or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(e) Except as expressly provided in Sections 2 or 3 of this Amendment, the execution, delivery, and effectiveness of this Amendment shall not (i) limit, impair, constitute a waiver of, or otherwise affect any right, power, or remedy of Agent or any Lender under the Credit Agreement or any other Loan Document, (ii) constitute a waiver of any provision in the Credit Agreement or in any of the other Loan Documents, or (iii) alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(f) Each of Borrower and each of the other Credit Parties (i) acknowledges and agrees that it has no actual or potential claim or cause of action against Agent or any Lender relating to any Loan Documents or any actions or events occurring on or before the date of this Amendment and (ii) waives and releases any right to assert such claim or cause of action.

(g) In the event of any inconsistency between the provisions of this Amendment and any provision of the Credit Agreement, the terms and provisions of this Amendment shall govern and control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Third Amendment to Amended and Restated Credit Agreement has been duly executed as of the date first written above.

GENERAL ELECTRIC CAPITAL CORPORATION,
as Administrative Agent and a Lender

By: /s/ Jeff Chiu
Jeff Chiu
Duly Authorized Signatory

BANK OF AMERICA, N.A.,
as a Lender

By: /s/ Robert Hostert
Name: Robert Hostert
Title: Vice President

THE CIT GROUP/BUSINESS CREDIT, INC.,
as a Lender

By: /s/ J. Danforth
Name: J. Danforth
Title: V.P.

WESTERN DIGITAL TECHNOLOGIES, INC.,

By: /s/ Steven M. Slavin
Steven M. Slavin
Vice President, Taxes and Treasurer

WESTERN DIGITAL FREMONT, INC.

By: /s/ Steven M. Slavin
Steven M. Slavin
Vice President, Finance

WESTERN DIGITAL (U.K.), LTD.,

By: /s/ Raymond M. Bukaty
Name: Raymond M. Bukaty
Title: Director & Asst. Secretary

WESTERN DIGITAL (I.S.) LIMITED,

By: /s/ Raymond M. Bukaty
Name: Raymond M. Bukaty
Title: Director & Secretary

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Arif Shakeel, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

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

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

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

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

Dated: November 8, 2005

/s/ Arif Shakeel

Arif Shakeel

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. 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

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

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

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

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

Dated: November 8, 2005

/s/ Stephen D. Milligan

Stephen D. Milligan
Chief Financial Officer

Exhibit 32.1

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

Certification of Chief Executive Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 8, 2005

/s/ Arif Shakeel

Arif Shakeel
Chief Executive Officer

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

Exhibit 32.2

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

Certification of Chief Financial Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2005 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 8, 2005

/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.