# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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## FILER

**READ RITE CORP /DE/**

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Mailing Address
*345 LOS COCHES STREET*
*MILPITAS CA 95035*

Business Address
*345 LOS COCHES ST*
*MILPITAS CA 95035*
*4082626700*

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

# FORM 10-Q

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2003**

**OR**

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

**FOR THE TRANSITION PERIOD FROM _____ TO _____**

**COMMISSION FILE NUMBER: 0-19512**

# READ-RITE CORPORATION

**(Exact name of registrant as specified in its charter)**

| **DELAWARE** | **94-2770690** |
|---|---|
| **(State of Incorporation)** | **(I.R.S. Employer Identification No.)** |
| **44100 OSGOOD ROAD, FREMONT, CA** | **94539** |
| **(Address of Principal Executive Officers)** | **(Zip Code)** |

**Registrant' s telephone number including area code: (510) 683-6100**

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 ☐

On May 10, 2003, 24,616,312 shares of the registrant' s common stock were issued and outstanding.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**READ-RITE CORPORATION**
**CONSOLIDATED CONDENSED BALANCE SHEETS**
**(in thousands, except for per share data)**

| | March 30, 2003 (unaudited) | September 29, 2002 * |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,207 | $ 18,307 |
| Short-term investments | – | 5,575 |
| Accounts receivable, net of allowance of $320 as of March 2003 and $862 as of September 2002 | 11,961 | 14,057 |
| Inventories | 12,123 | 18,111 |
| Prepaid expenses and other current assets | 3,387 | 5,362 |
| Total current assets | 31,678 | 61,412 |
| Property, plant and equipment, net | 158,452 | 197,186 |
| Other assets | 2,641 | 4,557 |
| Total assets | $ 192,771 | $ 263,155 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Short-term borrowing | $ 20,568 | $ 19,480 |
| Accounts payable | 44,916 | 38,755 |
| Accrued compensation and benefits | 13,512 | 14,985 |
| Other accrued liabilities | 21,491 | 21,067 |
| Current portion of long-term debt and capital lease obligations | 12,965 | 8,596 |
| Total current liabilities | 113,452 | 102,883 |
| Convertible subordinated notes | 19,151 | 19,151 |
| Other long-term debt and capital lease obligations | 34,562 | 26,883 |
| Other long-term liabilities | 12,496 | 14,264 |
| Total liabilities | 179,661 | 163,181 |
| Stockholders' equity: | | |
| Preferred stock, $0.0001 par value | – | – |
| Common stock, $0.0001 par value | 2 | 12 |
| Additional paid-in capital | 707,860 | 707,812 |
| Accumulated deficit | (694,752) | (607,864) |
| Accumulated other comprehensive income | – | 14 |
| Total stockholders' equity | 13,110 | 99,974 |
| Total liabilities and stockholders' equity | $ 192,771 | $ 263,155 |

* derived from audited financial statements

See accompanying notes to the consolidated condensed financial statements.

**READ-RITE CORPORATION**
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**
**(in thousands, except per share data)**
**(unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Net sales | $ 40,890 | $ 52,422 | $ 89,946 | $188,335 |
| Cost of sales | 62,794 | 88,533 | 141,573 | 202,768 |
| Cost of sales–special charges | – | 19,997 | – | 19,997 |
| Gross margin | (21,904) | (56,108) | (51,627) | (34,430) |
| Operating expenses: | | | | |
| Research and development | 6,422 | 12,129 | 15,986 | 24,493 |
| Selling, general and administrative | 4,747 | 6,591 | 8,428 | 12,619 |
| Restructuring charges | 26 | – | (259) | – |
| Impairment of property, plant and equipment | – | – | 3,284 | – |
| Total operating expenses | 11,195 | 18,720 | 27,439 | 37,112 |
| Operating loss | (33,099) | (74,828) | (79,066) | (71,542) |
| Interest expense | 9,522 | 1,021 | 10,561 | 2,130 |
| Interest income (expense) and other, net | 1,826 | 1,018 | 1,339 | 3,670 |
| Loss from continuing operations before income taxes | (40,795) | (74,831) | (88,288) | (70,002) |
| Provision for income taxes | – | (699) | – | (651) |
| Loss from continuing operations | (40,795) | (74,132) | (88,288) | (69,351) |
| Loss from discontinued operations | – | (2,504) | – | (11,777) |
| Gain on disposal of subsidiary (discontinued operations), net of tax | – | – | 1,400 | – |
| Net loss | $(40,795) | $(76,636) | $ (86,888) | $ (81,128) |
| Loss per share | | | | |
| Basic and diluted loss per share from continuing operations | $ (1.68) | $ (3.08) | $ (3.65) | $ (2.89) |
| Basic and diluted income (loss) per share from discontinued operations | $ – | $ (0.10) | $ 0.06 | $ (0.49) |
| Basic and diluted net loss per share | $ (1.68) | $ (3.18) | $ (3.59) | $ (3.38) |
| Shares used in per share computations basic and diluted | 24,223 | 24,073 | 24,223 | 23,978 |

See accompanying notes to the consolidated condensed financial statements.

**READ-RITE CORPORATION**
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**
**(in thousands)**
**(unaudited)**

| | Six Months Ended | |
|---|---|---|
| | March 30, 2003 | March 31, 2002 |
| Cash flows from operating activities: | | |
| Net loss | $(86,888) | $ (81,128) |
| Adjustments to reconcile net income (loss) to cash provided by operations: | | |
| Depreciation and amortization | 41,111 | 47,327 |
| Asset impairment charge | 3,284 | – |
| Minority interest in net loss of consolidated subsidiary | – | (2,767) |
| Other non-cash expenses | 2,242 | (783) |
| Changes in assets and liabilities | | |
| Accounts receivable | 2,096 | 36,018 |
| Inventories | 5,988 | 6,368 |
| Accounts payable and accrued liabilities | 4,760 | (31,477) |
| Other assets and liabilities, net | 2,650 | (1,559) |
| Net cash used in operating activities | (24,757) | (28,001) |
| Cash flows from investing activities: | | |
| Capital expenditures | (4,203) | (37,175) |
| Maturities of available-for-sale investments | 5,575 | 69,242 |
| Purchase of available-for-sale investments | – | (88,427) |
| Net cash provided by (used in) investing activities | 1,372 | (56,360) |
| Cash flows from financing activities | | |
| Proceeds from short-term borrowings | 14,230 | 5,739 |
| Payments of short-term borrowings | (1,046) | – |
| Proceeds from long-term debt | – | (3,675) |
| Cash paid for debt-issuance costs | (2,069) | – |
| Payment of long-term debt and capital leases | (1,863) | – |
| Proceeds from issuance of Scion common stock | – | 4,936 |
| Proceeds from issuance of common stock, net | 33 | 4,691 |
| Net cash provided by financing activities | 9,285 | 11,691 |
| Net increase (decrease) in cash and cash equivalents | (14,100) | (72,670) |
| Cash and cash equivalents | | |
| Beginning of period | 18,307 | 126,646 |
| End of period | $ 4,207 | $ 53,976 |
| Supplemental disclosures of non-cash activities | | |
| Valuation of warrant issued in connection with secured credit facility | 2,146 | – |
| Conversion of debt and accrued interest to common stock | – | 465 |

| | | |
|---|---|---|
| Reclassification of short-term debt to long-term debt | 13,824 | – |
| Reclassification of accounts payable to short-term borrowing | 1,676 | – |
| Conversion of Scion debt to minority interest | – | 7,224 |
| Equipment acquired under capital lease | – | 1,378 |

See accompanying notes to the consolidated condensed financial statements.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
## (Unaudited)

### NOTE 1. BASIS OF PRESENTATION

Read-Rite Corporation ("Read-Rite" or the "Company") maintains a fifty-two/fifty-three week fiscal year ending on the Sunday closest to September 30. The unaudited consolidated condensed financial statements included herein have been prepared in accordance with principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management all adjustments, including all normal recurring adjustments, necessary for a fair presentation of the interim periods presented have been included. The interim results are not necessarily indicative of the operating results expected for the full fiscal year ending on September 28, 2003.

The independent auditor' s report on the financial statements of the Company as of and for the fiscal year ended September 29, 2002 included in Form 10-K contained an explanatory paragraph highlighting the Company' s need for additional capital in fiscal 2003 to fund the Company' s operating and capital requirements, and that this condition raises substantial doubt about the Company' s ability to continue as a going concern. The Company' s consolidated financial statements have been prepared on the assumption that it will continue as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As of March 30, 2003 the Company had a working capital deficit of $81.8 million and incurred losses from continuing operations of $88.3 million for the first six months of fiscal 2003. The Company expects to continue to expend cash and incur operating losses at least through the third fiscal quarter of fiscal 2003 and anticipates it will need to raise additional capital, through debt or equity, in the third fiscal quarter of 2003. The Company is managing cash balances and obligations on a day-to-day basis. Customers have provided favorable payment terms. As of May 2, 2003, approximately $26 million of accounts payable balances were beyond standard payment terms. Payments to certain of its vendors have been renegotiated to allow for deferred payment while the Company has delayed payments to other vendors. In addition, certain suppliers are providing product to the Company only if payment is received in advance or upon delivery of the goods. However, there is no assurance that that customers will continue to provide favorable payment terms; that the Company will be able to maintain extended terms with its vendors; or financing will be available on terms and conditions acceptable or favorable to the Company or its shareholders, if at all. If the Company' s customers do not continue to provide favorable payment terms; if the Company' s vendors do not continue to extend terms; if the Company is unsuccessful in obtaining sufficient financing; if the Company does not achieve customer qualifications in a timely manner; or if the Company is unsuccessful at ramping up additional volume production on new products at acceptable yields, the Company' s operations will be materially negatively impacted and it will be required to take actions that will harm its business, including ceasing certain or all of its operations.

As discussed in Note 5, in December 2002 the Company entered into a $30 million credit facility. The borrowings under the credit facility are secured by substantially all of the Company' s domestic assets, including a pledge on the capital stock of the Company' s domestic and foreign subsidiaries. The amount available under the loan facility is subject to a borrowing base formula calculated on the Company' s domestic cash balances, eligible accounts receivable balances and appraised value of domestic equipment. Initial borrowings under the facility were $10.2 million, and the company paid a $1.5 million facility fee in connection with the transaction. The Company has issued to affiliates of Tennenbaum Capital Partners LLC, a warrant to purchase approximately 4.8 million shares of common stock in the Company at $1.35 per share, which was the closing market price of the Company' s common

stock on December 20, 2002. Borrowings under the facility as of March 30, 2003 were $11.2 million, representing the amount available under the facility to the Company. Interest on the facility is calculated based upon the three month Eurodollar rate plus 10%, interest on financings during interim periods is at the base rate plus 9%. Borrowings under the facility as of March 30, 2003 were at an interest rate of 11.23%. The remaining funds can be borrowed under the facility, subject to the borrowing base formula, on or before September 30, 2003, with a December 2005 maturity date.

Receipts from customers are remitted to a restricted account and may only be withdrawn by the Company if the eligible accounts receivable and appraised value of domestic equipment exceeds the amount borrowed under the facility. Eligibility of the non-U.S. accounts receivable, for purposes of the borrowing base formula, is contingent on the satisfaction of certain conditions. As discussed in Note 15, "Subsequent Events, Credit Facility," in April 2003, the Company entered into amendments to the credit facility, increasing the size of the facility from $30 million to $35 million. Additional warrants were issued in connection with the amendments to the facility. The amended facility allowed the Company to increase its borrowings under the facility and, as of May 10, 2003 total borrowings under the facility were $19 million. Of this $19 million, $14 million of borrowings were based upon the borrowing base formula with an additional $5 million borrowed under a term loan. The term loan is not subject to the borrowing base formula and does not affect the Company' s ability to withdraw operating cash from the restricted account. In the second quarter of fiscal 2003, the Company anticipated being out of compliance with certain covenants and obtained a limited waiver to the facility through March 31, 2003. The Company is currently in discussions with the lender regarding an additional waiver or amendment to the facility as a result of its anticipated noncompliance of certain covenants in the third fiscal quarter of 2003. As a result of the anticipated noncompliance, the debt is reflected under short-term borrowing as of March 30, 2003. In addition, due to the classification of the credit facility as short-term borrowing, the remaining debt discount of approximately $4.5 million and remaining issuance costs of $2.9 million were charged to interest expense for the quarter ending March 30, 2003. If the Company is not successful in obtaining a waiver or amendment of these covenants, the lender has the right to demand immediate payment of the debt.

The Company believes that its ability to fund its operating and capital requirements for fiscal 2003 and its ability to obtain additional financing are, in part, dependent on additional qualifications and further volume shipments of head gimbal assemblies ("HGAs") and head stack assemblies ("HSAs") for customers' 80 gigabyte per platter programs. The Company has qualified on two products during the second fiscal quarter of 2003 and anticipates additional qualifications during the third fiscal quarter of 2003. There can be no assurance, however, that the Company will be successful on these programs. Even if the Company successfully qualifies for customers' 80 gigabyte programs, its financial resources may not be sufficient to fund its operations until it achieves positive cash flow, or its sales of products for customers' 80 gigabyte programs may not result in positive cash flow or net income.

In October 2002, the Company adopted SFAS No. 144, which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," and certain provisions of Accounting Principles Board ("APB") Opinion No. 30 "Reporting the Results of Operations–Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 related to: (i) the recognition and measurement of the impairment of long-lived assets to be held and used, and (ii) the measurement of long-lived assets to be disposed by sale. It provides more guidance on estimating cash flows when performing recoverability tests, requires long-lived assets to be disposed of other than by sale to be classified as held and used until disposal, and establishes more restrictive criteria to classify long-lived assets as held for sale. The Company adopted SFAS 144 in the first quarter of 2003, and the adoption had no material impact on the Company' s consolidated financial statements.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation 45, "Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 clarifies the requirements of a guarantor' s accounting for and disclosure of certain issued and outstanding guarantees. It also clarifies that at the time a company issues a guarantee the company must recognize that information in its interim and quarterly financial information. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The Company adopted the recognition and measurement provisions of FIN 45 in the first quarter of 2003, and the adoption had no material impact on the Company' s consolidated financial statements.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 provides guidance on the accounting for recognizing, measuring and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 adjusts the timing of when a liability for termination benefits is to be recognized based on whether the employee is required to render future service. A liability for costs to terminate an operating lease or other contract before the end of its term is to be recognized when the entity terminates the contract or ceases using the rights conveyed by the contract. All other costs associated with an exit or disposal activity are to be expensed as incurred. SFAS No. 146 requires the liability to be measured at its fair value with subsequent changes in fair value to be recognized each reporting period utilizing an interest allocation approach. The pronouncement is effective for exit or disposal activities initiated after December 31, 2002; and is not expected to have a material impact on the Company' s consolidated results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of FASB Statement No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends certain provisions of SFAS No. 123 to require that disclosure of the pro forma effect of applying the fair value method of accounting for stock-based compensation be prominently displayed in an entity' s accounting policy in annual and interim financial statements. The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25 and complies with the disclosure provisions of SFAS 123 and SFAS 148.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," ("VIE' s") was issued. This interpretation clarifies situations in which entities shall be subject to consolidation. This interpretation is effective for all VIE' s created after January 31, 2003. The adoption of this interpretation did not have an impact on the Company' s financial statements, as the Company does not currently have any VIE' s.

The balance sheet at September 29, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The financial statements included herein should be read in conjunction with the Company' s audited financial statements included in its 2002 Annual Report on Form 10-K.

**NOTE 2. INVENTORIES**

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out method) or market. It is the Company' s policy to write-off inventory on hand in excess of six months forecasted sales volumes. Adjustments may be made to take into account the product life cycles, which can range from 6 to 12 months, the maturity of the product (whether newly introduced products or products approaching end of life), and the impact of competitors' product announcements. The Company believes that six months is an appropriate period of sales forecasts and inventory exposure calculations because it is difficult to accurately forecast for a specific product beyond this time frame due to the potential introduction of new products by competitors, technology obsolescence or fluctuations in demand for the Company' s products.

Inventories consisted of the following (in thousands):

| | March 30, 2003 | September 29, 2002 |
|---|---|---|
| Raw materials | $ 1,741 | $ 1,985 |
| Work-in-process | 8,833 | 13,564 |
| Finished goods | 1,549 | 2,562 |
| | $ 12,123 | $ 18,111 |

## NOTE 3. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for its stock based employee compensation plans using the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Effective for interim periods beginning after December 15, 2002, SFAS No. 148 also requires disclosures of pro-forma results on a quarterly basis as if the Company had applied the fair value recognition provisions of SFAS 123.

The fair value of each option grant and issuance under the stock purchase plan during the six-months ended March 30, 2003 and March 31, 2002 are estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

| | Six Months Ended | |
|---|---|---|
| | March 30, 2003 | March 31, 2002 |
| Dividend yield | – | – |
| Expected volatility | 1.25 | 1.46 |
| Risk free interest rate | 2.1% | 2.78% |
| Expected lives–stock options granted | 1.8 years | 3.1 years |
| Expected lives–employee stock purchase plan | 0.5 years | 0.5 years |

As the exercise price of all options granted under these plans was equal to the market price of the underlying common stock on the grant date, no stock-based employee compensation cost is recognized in the net loss. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended, to options granted under the stock option plans. For purposes of this pro-form disclosure, the estimated value of the options is amortized ratably to expense over the options' vesting periods.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Net loss as reported | $(40,795) | $(76,636) | $(86,888) | $(81,128) |
| Add: Compensation expense included in net loss | – | – | – | – |
| Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax benefits | 792 | 2,395 | 2,677 | 6,364 |
| Pro forma net loss: | $(41,587) | $(79,031) | $(89,565) | $(87,492) |
| Basic and diluted net loss per share as reported: | $ (1.68) | $ (3.18) | $ (3.59) | $ (3.38) |
| Pro forma basic and diluted net loss per share: | $ (1.72) | $ (3.28) | $ (3.70) | $ (3.65) |

## NOTE 4. NET LOSS PER SHARE

Basic net loss per share is calculated based on the weighted average number of shares outstanding during the period. The impact of common stock options, warrants and the assumed conversion of the Company' s convertible subordinated debentures into common stock was excluded from the computation of diluted net loss per share, as their effect is antidilutive for the periods presented.

**NOTE 5. FINANCING TRANSACTIONS**

In December 2002 the Company entered into a $30 million credit facility with Tennenbaum Capital Partners LLC (formerly Special Value Investment Management LLC). The borrowings under the credit facility ("Tennenbaum Credit Facility") are secured by substantially all of the Company' s domestic assets, including a pledge on the capital stock of the Company' s domestic and foreign subsidiaries. The amount available under the loan facility is subject to a borrowing base formula calculated on the Company' s domestic cash balances, eligible accounts receivable balances and appraised value of domestic equipment. Initial borrowings under the facility were $10.2 million, and the Company paid a $1.5 million facility fee in connection with the transaction. Borrowings under the facility as of March 30, 2003 were $11.2 million, representing the amount available under the facility to the Company. Interest on the facility is calculated based upon the three month Eurodollar rate plus 10%, interest on financings during interim periods is at the base rate plus 9%. Borrowings under the facility as of March 30, 2003 were at an interest rate of 11.23%. The remaining funds can be borrowed under the facility, subject to the borrowing base formula, on or before September 30, 2003, with a December 2005 maturity date.

Receipts from customers are remitted to a restricted account and may only be withdrawn by the Company if the eligible accounts receivable and appraised value of domestic equipment exceeds the amount borrowed under the facility. Eligibility of the non-U.S. accounts receivable, for purposes of the borrowing base formula, is contingent on the satisfaction of certain conditions. In the second quarter of fiscal 2003, the Company anticipated being out of compliance with certain covenants and obtained a limited waiver to the facility through March 31, 2003. The Company is currently in discussions with the lender regarding an additional waiver or amendment to the facility as a result of its anticipated noncompliance of certain covenants in the third fiscal quarter of 2003. As a result of the anticipated noncompliance, the debt is reflected under short-term borrowing as of March 30, 2003. In addition, as a result of the classification of the credit facility as short-term borrowing, the remaining debt discount of approximately $4.5 million and remaining issuance costs of $2.9 million were charged to interest expense for the quarter ending March 30, 2003. If the Company is not successful in obtaining a waiver or amendment of these covenants, the lender has the right to demand immediate payment of the debt.

In connection with the loan facility executed in December, the Company has issued to affiliates of Tennenbaum Capital Partners, LLC, a warrant to purchase approximately 4.8 million shares of common stock in the Company at $1.35 per share, which was the closing market price of the Company' s common stock on December 20, 2002. Additional shares may be issued under this warrant if the Company issues stock at a price below $1.35, provided that the aggregate number of shares issuable under the warrant does not exceed 19.9% of the outstanding common stock. A cash adjustment to the exercise price would be provided if the number of shares to be issued under the antidilution provisions exceeded 19.9% of the outstanding common stock. Because the number of shares to be issued under the warrant is not fixed and may be partially settled in cash, this instrument is not classified within equity and it is subject to accounting under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Under SFAS No. 133, the warrant will be accounted for at fair value with changes in fair value recorded currently in earnings. At the time of the initial $10.2 million borrowing, the fair value of the warrant was $4.8 million. The fair value of the warrant at March 30, 2003 was $2.2 million; based upon the lower stock price on March 30, 2003 compared to December 29, 2002, and the Company recognized a gain of $2.6 million associated with the revaluation. The valuation was based on the Black-Scholes valuation method, utilizing a volatility factor of 0.8, risk-free interest rate of 2.5% and an expected life of 7 years. The warrant is immediately exercisable and expires in December 2009. The value of the warrant is included in other accrued liabilities in the balance sheet as of March 30, 2003.

In the fourth quarter of fiscal 2002, the Company reached agreement with two Thai financial institutions to refinance loans totaling $28.9 million of which $23.4 million in principal payments were due on or before March 2003. The agreement extended the maturities of the loans, with the first principal payment on these loans due in the second fiscal quarter 2004. Documentation was completed with one Thai financial institution in the first quarter of fiscal 2003 and finalized with the second financial institution in January 2003.

Short-term borrowings as of March 30, 2003 consist of a Thai baht denominated note totaling $4.7 million at an interest rate of 4.75% and a $1.7 million note at a rate of 4%. In addition, in January 2003, the Company' s Thailand facility entered into a $3.0 million working capital facility. The working capital facility is at a floating rate, with an interest rate of 7.5% as of March 30, 2003. As of March 30, 2003, $3.0 million was outstanding under the facility. As discussed above, the amount borrowed under the Tennenbaum Credit Facility is also reflected as short-term borrowing as the Company is in discussions with the lender on anticipated noncompliance of certain covenants in the third fiscal quarter of 2003.

Long-term debt and capital leases consisted of the following as of March 30, 2003:

| | | |
|---|---|---|
| Convertible subordinated notes due 2004 at 6.5% | $ | 19,151 |
| Secured loan due 2004 at floating rate | | 13,986 |
| Secured loan due 2006 at LIBOR + 3.5% | | 9,561 |
| Secured loan due 2005 at LIBOR + 2.75% | | 11,450 |
| Secured loan due 2004 at LIBOR + 2% | | 2,480 |
| Secured loan due 2004 at LIBOR + 3.0% | | 3,000 |
| Secured loan due 2004 at SIBOR + 3.5% | | 4,000 |
| Capital lease | | 716 |
| Other | | 2,334 |
| Total debt | | 66,678 |
| Less: current portion | | 12,966 |
| Total long-term debt | $ | 53,712 |

At March 30, 2003, the future minimum principal payments on long-term debt and capital leases based on the contractual maturity dates were as follows (in thousands):

| | |
|---|---|
| 2003 | 5,651 |
| 2004 | 50,269 |
| 2005 | 8,747 |
| 2006 | 2,011 |
| Total future payments on long-term debt and capital leases | 66,678 |

**NOTE 6. COMPREHENSIVE LOSS**

The components of comprehensive loss, net of related tax are as follows (in thousands):

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | March 30, 2003 | March 31, 2002 | March 30, 2003 | March 31, 2002 |
| Net loss | $(40,795) | $(76,636) | $(86,888) | $(81,128) |
| Change in unrealized gain (loss) on available-for-sale investments | (14) | (260) | (14) | (295) |
| Comprehensive loss: | $(40,809) | $(76,896) | $(86,902) | $(81,423) |

**NOTE 7. SEGMENT INFORMATION**

The Company operates and tracks its results in two operating segments, the hard disk head and tape head segments. The tape segment is not a reportable segment under FAS 131, “Disclosures about Segments of an Enterprise and Related Information” (“FAS 131”), and has been combined with the disk head segment under the caption of “magnetic heads.” The Company designs, develops, manufactures and markets head gimbal assemblies, head stack assemblies and tape heads for the hard disk drive and tape drive markets. In April 2002, the Company sold its interest in its majority-owned subsidiary, Scion Photonics, Inc., which previously operated as the Company’ s fiber optic segment. The

Chief Executive Officer ("CEO") has been identified as the Chief Operating Decision Maker as defined by FAS 131. The Chief Executive Officer evaluates performance and allocates resources based on revenue and gross profit from operations.

## NOTE 8. CUSTOMER CONCENTRATION AND CREDIT RISK

Samsung and Western Digital, accounted for a total of 90% and 89% of net sales during the three-month and six-month periods ended March 30, 2003. Included as Western Digital product sales are HGAs shipped and billed directly to third party subcontractors, who assemble head stack assemblies for Western Digital. Given the small number of disk drive manufacturers, the Company will continue to be dependent upon a limited number of customers. The loss of any large customer, or a significant decrease in sales orders from one or more large customers, will have a material adverse effect on the Company' s business, financial condition, and results of operations.

## NOTE 9. DISCONTINUED OPERATIONS

In April 2002, JDS Uniphase acquired Scion Photonics, Inc., the Company' s majority-owned subsidiary, in a cash transaction. As a result, the Company recorded a gain on the disposal of the subsidiary of $9.4 million in fiscal 2002. The Company received cash proceeds of $15.2 million in the third quarter of fiscal 2002. In accordance with the agreement, additional amounts were receivable by the Company pending the settlement of contingencies related to the sale. During the quarter ending December 29, 2002, the Company received $1.4 million pursuant to settlement of those contingencies and recorded an additional gain on the disposal of the subsidiary of $1.4 million.

## NOTE 10. RESTRUCTURING CHARGE

During the fourth quarter of fiscal 2002, the Company recorded total restructuring and other charges of $19.5 million. The restructuring charge was primarily related to cost-cutting actions initiated by the Company in the fourth quarter of fiscal 2002. The charge included $4.6 million related to severance costs associated with a 5% reduction in force, or approximately 500 employees (330 and 110 employees engaged in manufacturing activities in Thailand and the U.S., respectively). The Company consolidated its staff in the United States, with the exception of its tape head operations, to its Fremont facility. Approximately $12.6 million of the charge is related to future lease payments on the vacated Milpitas facility. The lease on this facility expires in July 2006. At the time the charge was incurred in the fourth fiscal quarter of 2002, the Company anticipated the complete exit of the facilities by November 2002. As the complete exit of the facility did not occur until January 2003 an adjustment was made to the restructuring charge in the first fiscal quarter of 2003 to take into account the occupation of the facility for the additional period. The cost of the idle facilities, less estimated sublease rentals, has been accrued as part of the restructuring charge. At March 30, 2003, the aggregate lease payments are approximately $13.5 million over the remaining lease term. The Company estimates that sublease rental proceeds will be approximately $1.2 million over the remaining term of the lease. The estimated sublease rentals may vary significantly based upon the timing and the amount per square foot of a sublease arrangement, and whether a sublease arrangement is available at terms acceptable to the Company. The balance of the charge represents equipment write-downs and a write-off of leasehold improvements at the Milpitas facility. The fair value of the assets written down was determined based upon salvage value, as no further uses were identified.

The following table reflects the total restructuring charge (amount in thousands):

| | Equipment & Leaseholds | Severance | Lease Commitments | Total |
|---|---|---|---|---|
| Restructuring charge | $ 2,373 | $ 4,589 | $ 12,565 | $19,527 |
| Write offs/write downs | (2,373) | – | – | (2,373) |
| Cash payments | – | (4,269) | – | (4,269) |
| Change in estimates | – | – | – | – |
| Reserve balance September 29, 2002 | $ – | $ 320 | $ 12,565 | $12,885 |
| Cash payments | – | (336) | – | (336) |
| Change in estimate | – | 16 | (301) | (285) |
| Reserve balance December 29, 2002 | $ – | $ – | $ 12,264 | $12,264 |
| Change in estimate | – | – | 26 | 26 |
| Cash payments | – | – | (26) | (26) |

| | | | | |
|---|---|---|---|---|
| Accrual balance March 30, 2003: | $ – | $ – | $ 12,264 | $12,264 |

## NOTE 11. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Company evaluates the carrying value of property, plant and equipment, whenever certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a current period operating cash flow loss combined with a history of operating cash flow losses, or significant reductions in projected future cash flows. Based on its evaluation performed in the first quarter of fiscal 2003, the Company recorded a charge of $3.3 million to reduce the property, plant and equipment of the tape head assets based on the amounts by which the carrying amounts of these assets exceeded their fair value. The Company' s estimation of the fair value of the assets was based on estimated salvage value.

## NOTE 12. GUARANTEES

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation 45, "Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 clarifies the requirements of a guarantor' s accounting for and disclosure of certain issued and outstanding guarantees. It also clarifies that at the time a company issues a guarantee the company must recognize that information in its interim and annual financial information. The initial recognition and initial measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002.

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties. At March 30, 2003, the primary instance of this type of contract is a divestiture agreement, under which the Company provides customary indemnifications to JDS Uniphase, the purchaser of the Company' s divested operations of Scion Photonics, Inc. In addition, these contracts also relate to: (i) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company' s use of the applicable premises; and (ii) certain agreements with the Company' s officers, directors and employees under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship. The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonable estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of March 30, 2003.

The Company' s product warranty accrual reflects management' s best estimate of probable liability. Management determines the warranty based on historical experience and other current available evidence.

Warranty accrual for the six-month period ended March 30, 2003 was as follows: (in thousands):

| | | |
|---|---|---|
| Balance as of September 29, 2002 | $ | 4,756 |
| Accrual | | 3,244 |
| Settlements | | (2,281) |
| Adjustment related to completion of warranty programs | | (2,822) |
| Balance as of March 30, 2003 | $ | 2,897 |

## NOTE 13. LEGAL PROCEEDINGS

On May 19, 1997, James C. Nevius and William Molair filed a purported class action lawsuit in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The complaint alleges that the defendants made false and misleading statements about the Company' s business condition and prospects, alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and

SEC Rule 10b-5, and sought an unspecified amount of damages. On October 13, 2000, following a motion for dismissal by defendants, the court ordered that the complaint be dismissed with prejudice and without leave to amend. Plaintiffs thereafter filed a notice of appeal on November 9, 2000. Plaintiffs filed their opening appellate brief on July 8, 2002, defendants' filed their reply brief on September 6, 2002, and oral argument on the appeals was heard in the United States Court of Appeal for the Ninth Circuit on December 5, 2002. The Company is now awaiting the outcome of the appeal.

There has been no discovery to date in this action and no trial date has been set. The Company believes it and the individual defendants have meritorious defenses to this lawsuit. Accordingly, both on its own behalf, and pursuant to indemnification agreements between the Company and the individual defendants, the Company intends to continue to defend this action vigorously, and believes the final disposition of the lawsuit will not have a material adverse effect on the Company' s business, results of operations or financial condition.

On January 16, 2003, Limar Realty #2 filed a lawsuit in the Superior Court of the State of California, Santa Clara County, alleging that the Company failed to make the December 2002 and January 2003 rent payments on a building it leases in Milpitas, California. The lawsuit seeks recovery of approximately $300,000 per month in unpaid rent, plus interest and attorneys fees. The Company no longer uses the building in its operations, and the lawsuit was filed shortly after Limar Realty #2, the building' s owner, rejected the Company' s efforts to renegotiate the lease on terms consistent with current commercial rental market conditions, the Company' s current financial condition and its lack of need for the space. Efforts to resolve the matter are continuing.

Except as so noted, the Company is not a party to, and its property is not subject to, any pending legal proceedings other than ordinary routine litigation incidental and not material to the Company' s business. The Company does not believe such routine litigation, taken individually or in the aggregate, will have a material adverse effect on the Company' s business, financial condition, or results of operations.

**NOTE 14. REVERSE STOCK SPLIT**

At the Company' s Annual Shareholders' meeting held on February 5, 2003, shareholders approved a proposal to authorize the Company' s Board of Directors, in its discretion to effect a reverse stock split. The Company' s Board of Directors approved a 1-for-5 reverse stock split. The 1-for-5 reverse stock split was effective on Monday, February 24, 2003. No fractional shares were issued and holders of less than one share received cash in lieu of fractional shares. The cash payment is based on the closing pre-split price of the Company' s common stock on February 21, 2003 of $0.24. Basic and diluted net loss per share reflects the post-split shares for all periods presented.

**NOTE 15. SUBSEQUENT EVENTS**

**Credit Agreement** On April 1, 2003, the existing credit agreement with Tennenbaum Capital Partners LLC was amended, increasing the size of the facility from $30 million to $35 million. The amendment provided the Company with access to an additional $2.5 million against the Company' s property, plant and equipment (without granting any additional liens), and eased the borrowing-base eligibility formula for the Company' s accounts receivable. In addition, Tennenbaum Capital Partners provided a term loan of $5.0 million. Interest on the term loan is based upon one-month Eurodollar plus 10%, with interim borrowings currently at the base rate plus 9. As of May 10, 2003 total borrowings under the facility were $19 million, of which $14 million of borrowings was based upon the borrowing base formula with an additional $5 million borrowed under a term loan.

On April 20, 2003, in return for Tennenbaum' s agreement to amend the credit agreement and to loan the Company an additional $5.0 million, the Company agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 6,000,000 shares of the Company' s common stock at an exercise price equal to $0.65 per share, the closing market price per share of the Company' s common stock on March 31, 2003 (the "New Warrants"). The Company also agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 20,000,000 shares of the Company' s common stock at an exercise price equal to $0.25 per share (the "Contingent Warrants"), of which warrants to purchase 10,000,000 shares are immediately exercisable and warrants to purchase the remaining 10,000,000 shares shall either (i) vest on September 28, 2003 and become exercisable on November 12, 2003, in the event that the Company is unable to achieve a financial performance target, based upon the Company' s current projections, for the fiscal quarter ending on

September 28, 2003, or (ii) terminate without becoming exercisable in the event that the Company is able to achieve the financial target for such fiscal quarter. The remaining 10,000,000 Contingent Warrants would also terminate if the Company pre-pays all obligations due Tennenbaum under the credit agreement on or before November 12, 2003 or if the Company is acquired on or before September 28, 2003.

The shares underlying the New Warrants and the Contingent Warrants represent approximately 107% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the warrants. The Initial Warrants together with the New Warrants represent approximately 127% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the Initial Warrants. Assuming vesting of the Contingent Warrants and the exercise by Tennenbaum of all warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 56% of the total number of shares of the Company' s common stock outstanding after giving effect to such exercise. Should the Company achieve the September quarter financial target and the remaining 10,000,000 Contingent Warrants are cancelled, and likewise assuming immediate exercise by Tennenbaum of all other warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 46% of the total number of shares outstanding after giving effect to such exercise.

**Tape head manufacturing operations** In April 2003, the Company ceased its tape head wafer fab operations. Sufficient tape head wafers were manufactured and the Company' s Philippine operations will continue to process tape heads until the fourth fiscal quarter of 2003. The Company currently anticipates it will shut down the operations in the Philippines in the fourth fiscal quarter of 2003. The Company is currently in the process of attempting to sell the assets related to the tape head products.

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

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report; and Item 1, Business, Item 7, Management' s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data and notes thereto, in the Annual Report for the fiscal year 2002 as filed on Form 10-K.

## FORWARD LOOKING INFORMATION

Certain statements in this Management' s Discussion and Analysis of Financial Condition and Results of Operations include forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. These statements include, but are not limited to: the Company' s expectation that the industry trend toward fewer average head gimbal assemblies per head stack assembly and competitive pricing pressures will continue; the Company' s expectation that it will achieve and maintain acceptable yields on its GMR programs; the Company' s expectation for increased revenue and unit growth in the second half of fiscal 2003; the Company' s plan to acquire $10-12 million in capital equipment during fiscal 2003, including the potential acquisition of certain assets through operating leases; the Company' s plans to cease its tape head operations, the Company' s expectation that customers will continue to provide favorable payment terms and the Company' s vendors will continue to extend payment terms to the Company; the Company' s plan to pursue opportunities to continue to improve the efficiency of its operations, and the Company' s belief that the Company and the individual defendants in the purported class actions (collectively, the "Actions") described in Part II, Item 1 "Legal Proceedings," have meritorious defenses in such Actions. Actual results for future periods could differ materially from those projected in such forward-looking statements.

Some factors which could cause future actual results to materially differ from the Company' s recent results or those projected in the forward-looking statements include, but are not limited to: failure by the Company to timely, effectively and continuously execute on GMR product development; failure to obtain necessary customer qualifications on new programs; failure to timely and cost-effectively introduce those programs into manufacturing, and failure to achieve and maintain acceptable production yields on those programs; introduction of competitors' products more quickly or cost effectively than the Company' s products; constraints on supplies of raw materials or components limiting the Company' s ability to maintain or increase production; the anticipated trend of increases in areal density not occurring; significant increases or decreases in demand for the Company' s products, cancellation or rescheduling of customer orders, changes to the Company' s product mix, and changes in business conditions affecting the Company' s financial position or results of operations which significantly increase the Company' s

working capital needs; the Company' s inability to obtain or generate sufficient capital to fund its research and development expenses, capital expenditures, operating losses and other working capital needs; or failure by the Company to obtain favorable resolution of the claims set forth in the Actions. For a more detailed discussion of certain risks associated with the Company' s business, see "Certain Additional Business Risks." The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

**CHANGES TO PREVIOUSLY ANNOUNCED FISCAL 2003 SECOND QUARTER RESULTS**

On April 29, 2003, the Company announced results for the second quarter of fiscal 2003. Subsequent to that date, and as the result of the reclassification of the debt under the Tennenbaum secured credit facility from long-term debt to short-term borrowing, due to anticipated noncompliance with certain covenants in the third fiscal quarter of 2003, the Company made two adjustments. An additional $7.4 million was charged to interest expense represented by the debt discount of $4.5 million and issuance costs of $2.9 million under the Tennenbaum secured credit facility. Due to the lower stock price on March 30, 2003 as compared to December 29, 2002, the Company recorded a gain of $2.6 million in other income issued in connection with the secured credit facility. These adjustments increased the net loss for the three and six-month periods ending March 30, 2003 to $40.8 million and $86.9 million respectively from the loss of $35.9 million and $81.9 million reported on April 29, 2003 for the three and six-month periods ending March 30, 2003.

**CRITICAL ACCOUNTING POLICIES**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States require the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and expenses, and related disclosures. The Company bases the estimates on historical experience, knowledge of economic and market factors and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ materially from these estimates if the assumptions or conditions turn out to be incorrect. The Company believes the following critical accounting policies are affected by significant estimates, assumptions and judgments used in the preparation of the Company' s consolidated financial statements.

Long-lived assets. The Company evaluates the carrying value of long-lived assets, consisting primarily of property, plant and equipment, whenever certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a current period operating cash flow loss combined with a history of operating cash flow losses, or significant reductions in projected future cash flows. The Company' s business is highly capital intensive, with demand for products highly variable and difficult to predict. The Company had limited participation on 40 gigabyte per platter 3.5-inch hard disk drive products during fiscal year 2002 and the first six months of fiscal 2003. The Company is currently qualified on two 80 gigabyte programs, with additional qualifications anticipated in the third fiscal quarter of fiscal 2003. As a result, the Company had significantly lower sales in fiscal 2002 and in the first half of fiscal 2003 as compared to fiscal 2001 and the first quarter of fiscal 2002, respectively. In addition, the Company incurred a loss of $86.9 million in the first half of fiscal 2003 and expects to incur a loss in the third fiscal quarter of 2003. In assessing the recoverability of long-lived assets, the Company compares the carrying value to the undiscounted future cash flows the assets are expected to generate. If the total of the undiscounted future cash flows is less than the carrying amount of the assets, the assets will be written down based on the excess of the carrying amount over the fair value of the assets. Fair value would generally be determined by calculating the discounted future cash flows using a discount rate based upon the Company' s weighted average cost of capital or based on assets' estimated market value. Based upon the estimate of the future undiscounted cash flows, the Company has not recognized an impairment loss for the assets related to the hard disk drive head operations. The Company recognized an asset impairment loss of $3.3 million for its tape head operations in the second fiscal quarter of 2003. Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including long-term forecasts of overall market conditions, the availability of debt or equity financing, and the Company' s timely participation in the next generation 80 gigabyte products. In its analysis of the Company' s hard disk drive operations, the Company has assumed additional qualifications and volume shipments of its 80 gigabyte products in the third fiscal quarter of 2003, with the expectation of a return to its 2001 level of profitability in fiscal 2004. Changes in the Company' s estimates of future operating results could have a material adverse effect on the assessment of the long-lived assets, thereby requiring the Company to write down the assets.

Inventory Valuation. The Company is dependent on a few customers and a limited number of product programs for each customer. Because its products are custom-built, the Company typically cannot shift raw materials, work-in-process or finished goods from customer to customer, or from one program to another for a particular customer. The Company regularly assesses the valuation of inventories and writes down those inventories that are obsolete or in excess of the forecasted usage to the estimated realizable values. It is the Company' s policy to write-off inventory on hand in excess of six months forecasted sales volumes. Adjustments may be made to take into account the product life cycles, which typically range from 6 to 12 months, the maturity of the product (whether a newly introduced product or a product approaching its end-of-life), and the impact of competitors' product announcements. The Company believes that six months is an appropriate period for assessing inventory write-off requirements because it is difficult to accurately forecast for a specific product beyond this time frame due to potential introducing of new products by competitors, technology obsolescence or fluctuation in demand for the Company' s products. If market conditions are less favorable than the Company' s forecast or if actual demand from the customers is lower than the estimates, the Company may be required to record additional inventory write-downs. Conversely, if demand is higher than expected due to a change in mix or forecast, the Company may sell inventory that had previously been written down.

Allowance for bad debt. The Company is dependent on a limited number of customers. As a result, the Company' s trade accounts receivable is highly concentrated. While the Company performs ongoing credit reviews of its customers and has established an allowance for bad debt, a significant deterioration in the credit-worthiness of any significant customer may result in additional charges to increase the allowance for bad debt.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company' s consolidated financial statements are prepared and presented on a going concern basis. As of March 30, 2003, the Company had a working capital deficit of $81.8 million and incurred losses from continuing operations of $88.3 million for the first six months of fiscal 2003. The Company expects to continue to expend cash and incur operating losses at least through the third fiscal quarter of fiscal 2003 and anticipates it will need to raise additional capital, through debt or equity, in the third fiscal quarter of 2003. The Company is managing cash balances and obligations on a day-to-day basis. Customers have provided favorable payment terms. As of May 2, 2003, approximately $26 million of accounts payable balances were beyond standard payment terms. Payments to certain of its vendors have been renegotiated to allow for deferred payment while the Company has delayed payments to other vendors. In addition, certain suppliers are providing product to the Company only if payment is received in advance or upon delivery of the goods. However, there is no assurance that that customers will continue to provide favorable payment terms; that the Company will be able to maintain extended terms with its vendors or financing will be available on terms and conditions acceptable or favorable to the Company or its shareholders, if at all. If the Company' s customers do not continue to provide favorable payment terms, if the Company' s vendors do not continue to extend terms; if the Company is unsuccessful in obtaining sufficient financing; if the Company does not achieve customer qualifications in a timely manner, or if the Company is unsuccessful at ramping up additional volume production on new products at acceptable yields, the Company' s operations will be materially negatively impacted and it will be required to take actions that will harm its business, including ceasing certain or all of its operations.

In December 2002 the Company entered into a $30 million credit facility with Tennenbaum Capital Partners LLC (formerly Special Value Investment Management LLC). The borrowings under the credit facility are secured by substantially all of the Company' s domestic assets, including a pledge on the capital stock of the Company' s domestic and foreign subsidiaries. The amount available under the loan facility is subject to a borrowing base formula calculated on the Company' s domestic cash balances, eligible accounts receivable balances and appraised value of domestic equipment. Initial borrowings under the facility were $10.2 million, and the Company paid a $1.5 million facility fee in connection with the transaction. Borrowings under the facility as of March 30, 2003 were $11.2 million, representing the amount available under the facility to the Company. Interest on the facility is calculated based upon the three month Eurodollar rate plus 10%, interest on financings during interim periods is at the base rate plus 9%. Borrowings under the facility as of March 30, 2003 were at an interest rate of 11.23%. The remaining funds can be borrowed under the facility, subject to the borrowing base formula, on or before September 30, 2003, with a December 2005 maturity date.

Receipts from customers are remitted to a restricted account and may only be withdrawn by the Company if the eligible accounts receivable and appraised value of domestic equipment exceeds the amount borrowed under the facility. Eligibility of the non-U.S. accounts receivable, for purposes of the borrowing base formula, is contingent on the satisfaction of certain conditions. In the second quarter of fiscal 2003, the Company anticipated being out of compliance with certain covenants and obtained a limited waiver to the facility through March 31, 2003. The Company is currently in discussions with the lender regarding an additional waiver or amendment to the facility as a result of its anticipated noncompliance of certain covenants in the third fiscal quarter of 2003. As a result of the anticipated noncompliance, the debt is reflected under short-term borrowing as of March 30, 2003. In addition, as a result of the classification of the credit facility as short-term borrowing, the balance of the debt discount of approximately $4.5 million and remaining issuance costs of $2.9 million were charged to interest expense for the quarter ending March 30, 2003. If the Company is not successful in obtaining a waiver or amendment of these covenants, the lender has the right to demand immediate payment of the debt.

In connection with the loan facility executed in December, the Company has issued to affiliates of Tennenbaum Capital Partners, LLC, a warrant to purchase approximately 4.8 million shares of common stock in the Company at $1.35 per share, which was the closing market price of the Company' s common stock on December 20, 2002. Additional shares may be issued under this warrant if the Company issues stock at a price below $1.35, provided that the aggregate number of shares issuable under the warrant does not exceed 19.9% of the outstanding common stock. A cash adjustment to the exercise price would be provided if the number of shares to be issued under the antidilution provisions exceeded 19.9% of the outstanding common stock. Because the number of shares to be issued under the warrant is not fixed and may be partially settled in cash, this instrument is not classified within equity and it is subject to accounting under Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). Under SFAS No. 133, the warrant will be accounted for at fair value with changes in fair value recorded currently in earnings. At the time of the initial $10.2 million borrowing, $4.8 million was allocated to the fair value of the warrant. The fair value of the warrant at March 30, 2003 was revalued at $2.2 million, based upon the lower stock price on March 30, 2003 compared to December 29, 2002, and the Company recognized a gain of $2.6 million. The valuation was based on the Black-Scholes valuation method, utilizing a volatility factor of 0.8, risk-free interest rate of 2.5% and an expected life of 7 years. The warrant is immediately exercisable and expires in December 2009. The value of the warrant is included in other accrued liabilities in the balance sheet as of March 30, 2003.

On April 1, 2003, the existing credit agreement with Tennenbaum Capital Partners LLC was amended, increasing the size of the facility from $30 million to $35 million. The amendment provided the Company with access to an additional $2.5 million against the Company' s property, plant and equipment (without granting any additional liens), and eased the borrowing-base eligibility formula for the Company' s accounts receivable. In addition, Tennenbaum Capital Partners provided a term loan of $5.0 million. Interest on the term loan is based upon one-month Eurodollar plus 10%, with interim borrowings currently at the base rate plus 9%, exclusive of the amortization of issuance costs and the valuation of the warrants. As of May 10, 2003 total borrowings under the facility were $19 million, of which $14 million of borrowings was based upon the borrowing base formula with an additional $5 million borrowed under a term loan.

On April 20, 2003, in return for Tennenbaum' s agreement to amend the credit agreement and to loan the Company an additional $5.0 million, the Company agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 6,000,000 shares of the Company' s common stock at an exercise price equal to $0.65 per share, the closing market price per share of the Company' s common stock on March 31, 2003 (the "New Warrants"). The Company also agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 20,000,000 shares of the Company' s common stock at an exercise price equal to $0.25 per share (the "Contingent Warrants"), of which warrants to purchase 10,000,000 shares are immediately exercisable and warrants to purchase the remaining 10,000,000 shares shall either (i) vest on September 28, 2003 and become exercisable on November 12, 2003, in the event that the Company is unable to achieve a financial performance target, based upon the Company' s current projections, for the fiscal quarter ending on September 28, 2003, or (ii) terminate without becoming exercisable in the event that the Company is able to achieve the financial target for such fiscal quarter. The remaining 10,000,000 Contingent Warrants would also terminate if the Company pre-pays all obligations due Tennenbaum under the credit agreement on or before November 12, 2003 or if the Company is acquired on or before September 28, 2003.

The shares underlying the New Warrants and the Contingent Warrants represent approximately 107% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the warrants. The Initial Warrants together with the New

Warrants represent approximately 127% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the Initial Warrants. Assuming

vesting of the Contingent Warrants and the exercise by Tennenbaum of all warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 56% of the total number of shares of the Company' s common stock outstanding after giving effect to such exercise. Should the Company achieve the September quarter financial target and the remaining 10,000,000 Contingent Warrants are cancelled, and likewise assuming immediate exercise by Tennenbaum of all other warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 46% of the total number of shares outstanding after giving effect to such exercise.

The Company believes that its ability to fund its operating and capital requirements for fiscal 2003 and its ability to obtain additional financing are, in part, dependent on additional qualifications and further volume shipments of head gimbal assemblies ("HGAs") and head stack assemblies ("HSAs") for customers' 80 gigabyte per platter programs. The Company has qualified on two products during the second fiscal quarter of 2003 and anticipates additional qualifications during the third fiscal quarter of 2003. There can be no assurance, however, that the Company will be successful on these programs. Even if the Company successfully qualifies for customers' 80 gigabyte programs, its financial resources may not be sufficient to fund its operations until it achieves positive cash flow, or its sales of products for customers' 80 gigabyte programs may not result in positive cash flow or net income.

Cash used in operating activities for the first six-months of the fiscal year was $24.8 million. The cash utilization was the result of the loss for the six-month period of $86.9 million, offset by the depreciation and amortization of $41.1 million and the impairment of property, plant and equipment for the tape head assets of $3.3 million. Cash was also provided by a reduction in inventory balances of $6.0 million, a reduction in accounts receivable balances of $2.1 million and an increase in accounts payable and accrued liabilities of $4.8 million.

Cash utilized by investing activities for the six-month period ended March 30, 2003 totaled $1.4 million. For the six-month period ended March 30, 2003, the Company incurred capital expenditures of $4.2 million. The Company' s plan for capital equipment purchases during fiscal 2003 is approximately $10-12 million.

Cash provided by financing activities for the six-month period ended March 30, 2003 was $9.3 million primarily as the result of the net proceeds from two financing transactions of $14.2 million, less cash issuance costs of $2.1 million. The two financing transactions were represented by the $3.0 million working capital facility at the Company' s Thailand subsidiary and the $11.2 million borrowing under the Tennenbaum secured credit facility. The proceeds were offset by payments on the Company' s short-term borrowings and debt of $2.9 million.

**RESULTS OF OPERATIONS**

**NET SALES**

Net sales from continuing operations for the three and six-month periods ended March 30, 2003 was $40.9 million and $89.9 million respectively, representing a decline of $11.5 million and $98.4 million over the comparable periods last year. The decrease in sales is attributed to lower unit shipments and lower pricing for the first six-month period of fiscal 2003. The Company shipped 15.3 million HGAs (including HGAs shipped as HSAs) in the first half of fiscal 2003 compared to 28.1 million HGAs shipped during the comparable period last year.

For the three-month period ended March 30, 2003, the Company shipped 7.0 million HGAs as compared to 6.6 million HGAs during the comparable period last year. While unit shipments increased, the decrease in sales for the three-month period ended March 30, 2003 as compared to the three-month period ended March 31, 2003 is due to lower pricing for HGAs in the second fiscal quarter of 2003 and a lower percentage of HSA sales, as sales for HSAs accounted for 42% of net sales during the first fiscal quarter of 2003 compared to 62% of net sales during the second quarter of fiscal 2002.

During the three-month period ended March 30, 2003, the Company began to ramp shipments of 80 gigabyte product and these products accounted for 14.7% of sales during this period. Head gimbal assemblies accounted for 50% of net sales during the three-month period ended March 30, 2003 versus 26% of net sales during the second fiscal quarter of 2002. HGAs per HSA remained relatively flat with an average of 2.15 HGAs per HSA for the three-month period ending March 30, 2003 compared to 2.11 HGAs per HSA for the same period last year.

**GROSS MARGIN**

The Company' s gross margins are primarily influenced by four factors: the level of unit sales in relation to fixed costs, average selling prices ("ASPs"), manufacturing yields and product mix. As a result of the Company' s limited participation on customers' 40 gigabyte per platter programs in the last three quarters of fiscal 2002 and first two quarters of fiscal 2003, the lower volume significantly impacted the Company' s gross margin. Pricing was also impacted, as the average price of HGAs was lower for the three and six-month periods ending March 30, 2003 compared to the same periods last year. Offsetting these factors were improved yields in the factory and cost-cutting actions initiated by the company, including salary reduction and furlough programs. Also during the three-month period ending March 30, 2003, the Company sold $1.7 million of previously reserved inventory due to an increase in demand for the Company' s 40 gigabyte products. These actions resulted in a gross margin loss for the three-month period ended March 30, 2003 of $21.9 million compared to gross margin loss of $56.1 million for the same period last year. The gross margin loss improved 26% over the first quarter of fiscal year 2003.

The gross margin loss for the six-month period ending March 30, 2003 was $51.6 million, compared to $34.4 million for the comparable period last year was the result of significantly lower volume and lower pricing for the first half of fiscal 2003 as compared to the same period last year.

**OPERATING EXPENSES**

**RESEARCH AND DEVELOPMENT**

Research and development expenses were $6.4 million and $16.0 million for the three and six-month periods ended March 30, 2003 as compared to $12.1 million and $24.5 million for the three and six-month periods ended March 31, 2002. The decrease in expenditures is primarily attributed to the salary reduction and furlough programs initiated during fiscal year 2003, reduction in workforce, and lower depreciation expense.

**SELLING, GENERAL & ADMINISTRATIVE**

Selling, general and administrative ("SG&A") expenses were $4.7 million and $8.4 million for the three and six-month periods ended March 30, 2003 as compared to $6.6 million and $12.6 million for the three and six-month periods ended March 31, 2002. The lower expense is primarily due to a reduction in workforce, the salary reduction and furlough programs instituted at the Company and a $0.6 million reversal of the allowance for bad debt for the six-month period ended March 30, 2003 as compared to comparable period last year.

**IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

The Company incurred an asset impairment charge of $3.3 million in the three-month period ended December 29, 2002 as a result of an impairment analysis for the Company' s tape head assets.

**NON-OPERATING EXPENSES**

**INTEREST EXPENSE**

Interest expense was $9.5 million for the quarter ended March 30, 2003 and $10.6 million for the six-month period ended March 30, 2003 as compared to $1.0 million and $2.1 million for the same period last year. The increase in interest expense for the three and six-month periods ending March 30, 2003 is the result of the secured credit facility entered in December 2002. Due to the classification of the facility under short-term borrowing as of March 30, 2003, the debt discount of $4.8 million and issuance costs of $3.1 million were charged to interest expense during the second fiscal quarter of 2003. Borrowings under the credit facility currently bear interest at a rate of Eurodollar plus 10%, with interim borrowings at base rate plus 4%, with a current interest as of March 30, 2003 of 11.23%. The Company expects an increase in interest expense for the remainder of fiscal 2003 as a result of borrowings under the secured credit facility.

**INTEREST INCOME AND OTHER, NET**

Interest income and other, net for the three-month period ended March 30, 2003 was $1.8 million compared to $1.0 million for the three-month period ended March 31, 2002. The increase in income is primarily the result of the gain on the revaluation of the warrant of $2.6 million, offset by a $1 million asset write-down of the Philippines' building during the second quarter of fiscal 2003. Interest income was $0.7 million lower in the three-month period ended March 30, 2003 compared to the previous year as a result of significantly lower cash balances.

Interest income and other for the six-month period ended March 30, 2003 was $1.3 million versus $3.7 million for the six-month period ended March 31, 2002. The $2.4 million reduction in interest income for the six-month period ended March 30, 2003 compared to the previous year was primarily related to a reduction of $1.6 million in interest income due to lower cash balances in fiscal 2003, a $1 million write-down of the Philippines' building, a $0.4 million charge to write-down an investment in Tessera, Inc. offset by the gain on the revaluation of the warrant of $2.6 million. In addition, higher income in the six-month period of fiscal 2002 was attributable to rental income of $0.8 million on the Company' s excess space in the Philippines during the first quarter of fiscal 2002.

Volatility in the future price of the Company' s stock will influence the valuation of the warrant and hence impact interest income and other, net for future periods. An increase in the value of the Company' s stock will increase the value of the warrant and result in a loss on the revaluation of the warrant, and conversely, a reduction in the Company' s stock price will decrease the valuation of the warrant and result in a gain to the Company.

**INCOME TAXES**

The Company recorded no tax expense for the first quarter of fiscal 2003 compared to a tax expense of $0.05 million for the first fiscal quarter of 2002. The tax provisions in both years reflect no benefit for net operating losses until realized, federal alternative minimum taxes, and foreign taxes.

**GAIN ON SALE OF SUBSIDIARY (DISCONTINUED OPERATION)**

The Company sold its interest in Scion Photonics, Inc. to JDS Uniphase in April 2002. In accordance with the acquisition agreement, additional amounts were receivable by the Company pending the settlement of contingencies related to the sale. During the quarter ending December 29, 2002, the Company received $1.4 million pursuant to the settlement of those contingencies and recorded a gain on the disposal of the subsidiary of $1.4 million.

## CERTAIN ADDITIONAL BUSINESS RISKS

The Company' s business, financial condition and operating results can be affected by a number of factors, including but not limited to those set forth below, any one of which could cause the Company' s actual results to vary materially from recent results or from the Company' s anticipated future results.

### Financial Resources and The Company' s Ability To Continue As a "Going Concern" Is Uncertain

The Company' s consolidated financial statements have been prepared on the assumption that it will continue as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The independent auditor' s report on the financial statements of the Company as of and for the fiscal year ended September 29, 2002 included herein contains an explanatory paragraph pointing out the Company' s need for additional capital in fiscal 2003 to fund the Company' s operating and capital requirements and which condition raises substantial doubt about the Company' s ability to continue as a going concern. As of March 30, 2003, the Company had a working capital deficit of $81.8 million and incurred losses from continuing operations of $88.3 million for the first six months of fiscal 2003. The Company expects to continue to expend cash and incur operating losses at least through the third fiscal quarter of fiscal 2003 and anticipates it will need to raise additional capital, through debt or equity, in the third fiscal quarter of 2003. The Company is managing cash balances and obligations on a day-to-day basis. Customers have provided favorable payment terms. As of May 2, 2003, approximately $26 million of accounts payable balances were beyond standard payment terms. Payments to certain of its vendors have been renegotiated to allow for deferred payment while the Company has delayed payments to other vendors. In addition, certain suppliers are providing product to the Company only if payment is received in advance or upon delivery of the goods. However, there is no assurance that that customers will continue to provide favorable payment terms; that the Company will be able to maintain extended terms with its vendors; or financing will be available on terms and conditions acceptable or favorable to the Company or its shareholders, if at all. If the Company' s customers do not continue to provide favorable payment terms, if the Company' s vendors do not continue to extend terms; if the Company is unsuccessful in obtaining sufficient financing; if the Company does not achieve customer qualifications in a timely manner; or if the Company is unsuccessful at ramping up additional volume production on new products at acceptable yields, the Company' s operations will be materially negatively impacted and it will be required to take actions that will harm its business, including ceasing certain or all of its operations.

In December 2002 the Company entered into a $30 million credit facility with Tennenbaum Capital Partners LLC (formerly Special Value Investment Management LLC). The borrowings under the credit facility are secured by substantially all of the Company' s domestic assets, including a pledge on the capital stock of the Company' s domestic and foreign subsidiaries. The amount available under the loan facility is

subject to a borrowing base formula calculated on the Company' s domestic cash balances, eligible accounts receivable balances and appraised value of domestic equipment. Initial borrowings under the facility were $10.2 million, and the Company paid a $1.5

million facility fee in connection with the transaction. Borrowings under the facility as of March 30, 2003 were $11.2 million, representing the amount available under the facility to the Company. Interest on the facility is calculated based upon the three month Eurodollar rate plus 10%, interest on financings during interim periods is at the base rate plus 9%. Borrowings under the facility as of March 30, 2003 were at an interest rate of 11.23%. The remaining funds can be borrowed under the facility, subject to the borrowing base formula, on or before September 30, 2003, with a December 2005 maturity date.

Receipts from customers are remitted to a restricted account and may only be withdrawn by the Company if the eligible accounts receivable and appraised value of domestic equipment exceeds the amount borrowed under the facility. Eligibility of the non-U.S. accounts receivable, for purposes of the borrowing base formula, is contingent on the satisfaction of certain conditions. In the second quarter of fiscal 2003, the Company anticipated being out of compliance with certain covenants and obtained a limited waiver to the facility through March 31, 2003. On April 1, 2003, the Company entered into an amendment to the credit facility, increasing the size of the facility from $30 million to $35 million. The amended facility allowed the Company to increase its borrowings under the facility and as of May 10, 2003 total borrowings under the facility were $19 million, of which $14 million of borrowings was based upon the borrowing base formula with an additional $5 million borrowed under a term loan. The agreement requires the Company to maintain certain financial covenants and observe a series of additional covenants. The company anticipates noncompliance with certain covenants in the third fiscal quarter of 2003 and is in discussions with the lender concerning the anticipated noncompliance. As a result of the anticipated noncompliance, the debt is reflected under short-term borrowing as of March 30, 2003. In addition, as the result of classification of the Credit Facility under short-term borrowing, the remaining debt discount of approximately $4.5 million and remaining issuance costs of approximately $2.9 million were charged to interest expense during the quarter ended March 31, 2003. If the Company is not successful in obtaining a waiver of these covenants for the Company' s third fiscal quarter of 2003, the lender has the right to demand immediate payment of the debt.

The Company estimates it will need to raise additional capital through debt, including increased availability under the secured credit facility, equity offerings, or by selling assets in the third fiscal quarter of 2003. The Company believes that its ability to fund its operating and capital requirements for fiscal 2003 and its ability to obtain additional financing are, in part, dependent on additional qualifications and further volume shipments of head gimbal assemblies ("HGAs") and head stack assemblies ("HSAs") for customers' 80 gigabyte per platter programs. The Company has qualified on two products during the second fiscal quarter of 2003 and anticipates additional qualifications during the third fiscal quarter of 2003. There can be no assurance, however, that the Company will be successful on these programs. Even if the Company successfully qualifies for customers' 80 gigabyte programs, its financial resources may not be sufficient to fund its operations until it achieves positive cash flow, or its sales of products for customers' 80 gigabyte programs may not result in positive cash flow or net income.

**Rapid Technological Change**

Technology changes rapidly in the Company' s industry. These rapid changes require the Company both to address obsolescence of old technologies and to anticipate new technologies. There can be no assurance that the Company' s R&D efforts will be successful in the development of new technologies or that if successful, that the Company will be able to obtain qualifications on customer programs or transition the technologies into commercially viable products. Failure to smoothly transition from old technologies or to anticipate and execute on new technologies can have a material adverse effect on the Company' s business, financial condition and results of operations. For example, during fiscal 2002, the Company experienced difficulty making the transition to the 40 GB technology, and, as a result, had limited participation on customers' 40 gigabyte per platter programs which resulted in significantly lower sales and a loss from continuing operations of $231 million in fiscal 2002 and a loss of $88.3 million from continuing operations in the first half of fiscal 2003. The Company is currently in the process of qualifying product for additional 80 gigabyte per platter programs. The Company is qualified on two 80 gigabyte programs and anticipates qualifications on additional 80 gigabyte products in the third fiscal quarter of 2003. Failure to qualify on these programs would likely delay positive cash flow. Given the Company' s current cash position, discussed above, such a delay in achieving positive cash flow would have a material adverse effect on the Company' s business, financial condition and results of operations.

The Company expects to continue investing significant resources in GMR and in other thin film magnetic product development and manufacturing equipment. In November 2002, the Company announced it had achieved an areal density of 146 gigabits per square inch using perpendicular recording technology. There can be no assurance, however, that the Company will be successful in timely and cost effectively developing and manufacturing heads for future programs using perpendicular recording technology, or other future technologies, at acceptable manufacturing yields as is needed to achieve consistent design wins on customers' new product programs.

**Dependence on a Limited Number of Customers; Risk of Reduced or Cancelled Orders**

The Company is a component supplier dependent upon a limited number of customers in a volatile industry characterized by rapid technological change, short product life cycles, intense competition, frequent delivery schedule changes and steady price erosion. In addition, demand for the Company' s products is highly variable and thus difficult to predict accurately. These factors, as well as the demand for personal computers, can materially and adversely affect the Company' s business, financial condition and results of operations.

The Company' s largest customers are Western Digital, Maxtor and Samsung, representing 49%, 27%, and 15%, respectively, of the Company' s net sales during fiscal 2002. Western Digital and Samsung accounted for 89% of the sales in the first half of fiscal 2003. Given the small number of high performance disk drive manufacturers who require an independent source of head gimbal assemblies and head stack assemblies, the Company will continue to be dependent upon a limited number of customers. The loss of any large customer, or a significant decrease in or cancellation of orders from one or more large customers, will have a material adverse effect on the Company' s business, financial condition and results of operations. In addition, this dependence upon a limited number of customers means that acquisitions, consolidations or other material agreements affecting such customers could also have a material adverse effect on the Company' s business, financial condition and operating results. Acquisitions or significant transactions by the Company' s customers leading to further consolidation, vertical integration or other material agreements could also materially and adversely affect the Company' s business, financial condition and results of operations.

**Dependence on a Limited Number of Suppliers**

As a high technology company in a narrowly defined industry, the Company is often dependent upon a limited number of suppliers and subcontractors, and in some cases on single sources, for critical components or supplies. The Company has particularly limited alternative sources of certain key materials, such as wafer substrates, photo resist and suspensions, and frequently must rely on a single equipment supplier for a given type of equipment due to lack of viable alternatives or to insure process consistency. Furthermore, the Company' s customers generally determine the suppliers in advance. The Company' s suppliers may, in the future, be unwilling to extend credit or provide the Company with the required services based upon the financial resources of the Company, which are currently limited as described in "Financial Resources and the Company' s Ability to Continue as a Going Concern is Uncertain" above. If suppliers are unwilling to extend credit or provide the Company with the required products and services; the Company' s manufacturing operations may be interrupted or shut

down. Any limitation on or interruption in the supply of certain components or supplies can severely and adversely affect the Company' s production and results of operations.

**Dependence on Single Manufacturing & Assembly Facilities**

The Company has one wafer fabrication facility in Fremont, California and operates in one location in Thailand for its head gimbal and head stack assembly operations. The Company' s wafer fabrication facility, and a majority of its administration and data processing functions are located in a seismically active area that has experienced major earthquakes in the past. A fire, flood, earthquake or other disaster affecting any of these locations may have an adverse effect on the Company' s business, financial condition and results of operations.

**Complex Manufacturing Processes**

The Company' s manufacturing processes involve numerous complex steps. Minor deviations can cause substantial manufacturing yield loss and, in some cases, can cause production to be suspended. Manufacturing yields for new products initially tend to be lower as the Company completes product development and commences volume manufacturing, and thereafter yields typically increase as the Company ramps to full production. The Company' s forward product pricing reflects this assumption of improving manufacturing yields and, as a result, material variances between projected and actual manufacturing yields have a direct effect on the Company' s gross margin and profitability. The difficulty of forecasting manufacturing yields accurately and maintaining cost competitiveness through improving manufacturing yields will continue to be magnified by the ever-increasing process complexity of manufacturing GMR products. Further, short product cycles require that the Company produce new products at higher volume and acceptable manufacturing yields without, in many cases, reaching the longer-term, higher volume manufacturing cycle which is more conducive to higher manufacturing yields and declining costs.

In addition, the HSA business carries certain risks and demands in addition to those of the HGA business. Among those risks are lower gross margins, increased exposure to inventory obsolescence due to the larger number of parts required for an HSA and the fact that each HSA program requires unique components with long lead-time purchasing cycles and varying product life spans between different HSA models.

**International Operations**

The Company' s production process is labor intensive. As a result, the Company conducts substantially all of its slider machining, head gimbal assembly and test operations, head stack assembly and tape head assembly operations offshore, and is thus subject to the many risks associated with contracting with foreign vendors and suppliers and with the ownership and operation of foreign manufacturing facilities. These risks include the need to obtain requisite governmental permits and approvals, currency exchange fluctuations and restrictions, variable or higher tax rates, expiration of tax holidays, political instability, changes in government policies relating to foreign investment and operations, cultural issues, labor problems, trade restrictions, transportation delays and interruptions, and changes in tariff and freight rates. The Company has from time to time experienced labor organization activities at certain of its foreign operations. At this time none of the Company' s employees are represented by a union. There can be no assurance, however, that the Company will continue to be successful in avoiding work stoppages or other labor issues in the future.

In addition, several Asian countries, including Thailand and the Philippines, experience fluctuations in the value of their currencies relative to the U.S. dollar. The Company is unable to predict what effect, if any, these factors will have on its ability to manufacture products in these markets. The Company enters into foreign currency forward and option contracts in an effort to manage exposure related to certain foreign currency commitments, foreign currency denominated balance sheet positions and anticipated foreign currency denominated expenditures. There can be no assurance, however, that the Company' s attempts to manage these exposures will be successful.

**Substantial Capital Expenditures; Asset Utilization**

The Company' s business is highly capital intensive. The Company has made substantial capital expenditures and installed significant production capacity to support new technologies and anticipated increased demand for its products. The Company made capital expenditures for its magnetic head operations during fiscal 2002 of $49.7 million compared to $84 million during fiscal 2001. A significant percentage of the capital expenditures in fiscal years 2001 and 2002 were for the round wafer conversion. The Company expects capital expenditures to be between $10-12 million in fiscal 2003. To maintain its market position, the Company must anticipate demand for its products and the path of new technologies so that production capacity, both in terms of amount and the proper technologies, will be in place to meet customers' needs. Accurate capacity planning is complicated by the pace of

technological change, unpredictable demand variations, the effects of variable manufacturing yields, and the fact that most of the Company' s plant and equipment expenditures have long lead times, requiring major commitments well in advance of actual requirements. The Company' s underestimation or overestimation of its capacity requirements, or its failure to successfully and timely put in place the proper technologies, could have a material adverse effect on the Company' s business, financial condition and results of operations.

Fluctuations in demand can also lead to under-utilization of assets and the consideration of asset impairment charges. The carrying value of property, plant and equipment is reviewed if the facts and circumstances suggest that property, plant and equipment may be impaired. An impairment review requires management to make certain estimates and judgments regarding future cash flows that management expects to be generated by groups of assets. In assessing the recoverability of long-lived assets, the Company compares the carrying value to the undiscounted future cash flows the assets are expected to generate. If the total of the undiscounted future cash flows is less than the carrying amount of the assets, the assets will be written down based on the excess of the carrying amount over the fair value of the assets. Fair value would generally be determined by calculating the discounted future cash flows using a discount rate based upon the Company' s weighted average cost of capital. Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including long-term forecasts of overall market conditions and the expected successful execution of the Company' s business strategy in that market. These assumptions include forecasts regarding revenue, gross margins, and other operating expenditures. Because the Company operates in a volatile industry, characterized by rapid technological change, these assumptions are inherently subject to change in the near term and may result in an adverse impact on earnings. For example, in the first fiscal quarter of 2003, the Company recorded a $3.3 million impairment charge related to tape head assets.

**Inventory Risks; Custom Product Risks**

Due to the cyclical nature of and rapid technological change in the hard disk drive industry, the Company' s inventory is subject to substantial risk. To address these risks, the Company monitors its inventories on a periodic basis and provides inventory write-downs intended to cover inventory risks. However, the Company is dependent on a few customers and a limited number of product programs for each customer. The magnitude of the commitments the Company must make to support its customers' programs is very large and the Company has limited remedies in the event of program cancellations. The Company believes it is common practice for disk drive manufacturers to place orders in excess of requirements and to change or cancel outstanding purchase orders in response to rapidly shifting business conditions. If a customer cancels or materially reduces orders for one or more product programs, or experiences financial difficulties, the Company may be required to take significant inventory charges, which in turn could materially and adversely affect the Company' s business, financial condition and results of operations.

The Company manufactures custom products for a limited number of customers. Because its products are custom-built, the Company typically cannot shift raw materials, work-in-process or finished goods from customer to customer, or from one product program to another for a particular customer. However, to enable its customers to get products to market quickly and to address its customers' demand requirements, the Company must invest substantial resources and make significant materials commitments, often before obtaining formal customer qualifications and generally before the market prospects for its customers' products are clear. Moreover, given the rapid pace of technology advancement in the disk drive industry, the disk drive products that do succeed typically have very short life cycles. Finally, in response to rapidly shifting business conditions, some of the Company' s customers have generally sought to limit purchase order commitments to the Company, and have done so by employing what is known in the industry as JIT (Just-in-Time) hubs. If the customer does not have demand from its end customer, the customer will not pull the inventory from the JIT hub and thus the Company may be left with excess and or obsolete inventory, which increases inventory risk.

In fiscal 2002, the Company incurred special charges totaling $36.7 million primarily relating to 40 gigabyte per platter inventory. The Company may be required to take additional inventory write-downs in the future due to the Company' s inability to obtain necessary product qualifications, or due to order cancellations by customers.

**Dependence on Key Personnel**

The Company' s future performance depends on the continued service of key members of management and its highly skilled research and development and manufacturing personnel. If the Company is unable to retain the existing employees or hire and integrate new employees, it may have an adverse effect on the Company' s business, financial condition and results of operations.

## Intellectual Property & Proprietary Rights

Read-Rite has over 315 U.S. and foreign patents, generally having terms of 20 years from their filing dates, and many additional U.S. and foreign applications pending. In addition, Read-Rite has a variety of licenses and cross-licenses with other companies within the industry such as IBM, Seagate and TDK for certain uses of those companies' patents. The Company knows that its success depends on the innovative skills and technical competence of its employees and upon proper protection of its intellectual property. Despite Read-Rite' s protective measures, there can be no assurance that such measures will be adequate to protect its proprietary rights or that the Company' s competitors will not independently develop or patent technologies that are equivalent or superior to the Company' s technology.

The Company has, from time to time, been notified of claims that it may be infringing patents owned by others. To the extent that the Company receives additional claims of infringement from others in the future, where necessary or desirable, the Company may seek licenses under patents that it is allegedly infringing. Although patent holders commonly offer such licenses, no assurance can be given that licenses will be offered or that the terms of any offered licenses will be acceptable to the Company. Defending a claim of infringement or the failure to obtain a key patent license from a third party could cause the Company to incur substantial liabilities and/or to suspend the manufacturing of the products utilizing the patented invention.

## Fluctuations in Operating Results

The Company' s business is capital intensive, and hence carries significant fixed costs. The Company has experienced substantial fluctuations in its quarterly and annual operating results in the past, and the Company' s future operating results could vary substantially from quarter to quarter. The Company' s operating results for a particular quarter or longer periods can be materially and adversely affected by numerous factors, such as increased competition or execution issues leading to a failure by the Company to obtain design wins on one or more customer programs; delayed product introductions or capacity constraints on certain technologies; decreased demand for or decreased average selling prices for the Company' s products; low product manufacturing yields; increased returns or rework; changes in product mix; increased operating costs associated with the ramp-up of production as capacity is added or under-utilization of capacity if demand is less than anticipated; increased material costs or material or equipment unavailability; disruptions in domestic or foreign operations; and general economic conditions. The Company' s net sales are generally made pursuant to individual purchase orders that may be changed or canceled by customers on short notice, often without material penalties. Changes or cancellations of product orders could result in under-utilization of production capacity and inventory write-offs. In the last three quarters of fiscal 2002 and first two quarters of fiscal 2003, the Company experienced significantly lower shipments as a result of its late and limited participation on customers' 40 gigabyte per platter programs. As a consequence, the Company experienced a significant reduction in net sales, a negative gross margin and incurred significant losses in fiscal 2002 and the first half of fiscal 2003.

## Volatility of Stock Price

The trading price of the Company' s common stock is expected to continue to be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, the Company' s liquidity position, announcements of technological innovations or new products by the Company or its competitors, qualifications on volume shipment programs from major customers, general conditions in the disk drive and computer industries, general economic conditions and other events or factors. In addition, stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market price of securities issued by many high technology companies, in many cases for reasons unrelated to the operating performance of the specific companies. The Company' s common stock has experienced volatility not necessarily related to announcements of Company performance. Broad market fluctuations may adversely affect the market price of the Company' s common stock.

## Dilution to Shareholders

In connection with the secured credit facility executed in December 2002, the Company has issued to affiliates of Tennebaum Capital Partners LLC a warrant to purchase approximately 4.8 million shares ("Initial Warrant") of common stock in the Company at $1.35 per share. Additional shares may be issued under this warrant if the Company issues stock at a price below $1.35, provided that the aggregate number of shares issuable under the warrant does not exceed 19.9% of the outstanding common stock.

On April 20, 2003, in return for Tennenbaum' s agreement to amend the secured credit facility and to loan the Company an additional $5.0 million, the Company agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 6,000,000 shares of the Company' s common stock at an exercise price equal to $0.65 per share, the closing market price per share of the Company' s common stock on March 31, 2003 (the "New Warrants"). The Company also agreed to issue to Tennenbaum, ten days after the date on which notification of the transaction was first sent to shareholders, seven-year detachable warrants to purchase 20,000,000 shares of the Company' s common stock at an exercise price equal to $0.25 per share (the "Contingent Warrants"), of which warrants to purchase 10,000,000 shares are immediately exercisable and warrants to purchase the remaining 10,000,000 shares shall either (i) vest on September 28, 2003 and become exercisable on November 12, 2003, in the event that the Company is unable to achieve a financial performance target, based upon the Company' s current projections, for the fiscal quarter ending on September 28, 2003, or (ii) terminate without becoming exercisable in the event that the Company is able to achieve the financial target for such fiscal quarter. The remaining 10,000,000 Contingent Warrants would also terminate if the Company pre-pays all obligations due Tennenbaum under the credit agreement on or before November 12, 2003 or if the Company is acquired on or before September 28, 2003.

The shares underlying the New Warrants and the Contingent Warrants represent approximately 107% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the warrants. The Initial Warrants together with the New Warrants represent approximately 127% of the total number of shares of the Company' s common stock and voting power outstanding before issuance of the Initial Warrants. Assuming vesting of the Contingent Warrants and the exercise by Tennenbaum of all warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 56% of the total number of shares of the Company' s common stock outstanding after giving effect to such exercise. Should the Company achieve the September quarter financial target and the remaining 10,000,000 Contingent Warrants are cancelled, and likewise assuming immediate exercise by Tennenbaum of all other warrants issued to Tennenbaum by the Company, Tennenbaum would own approximately 46% of the total number of shares outstanding after giving effect to such exercise.

**Potential NASDAQ National Market Delisting Of The Company' s Common Stock**

The Company' s common stock trades on the NASDAQ national market, which specifies certain requirements for the continued listing of such securities. One of these requirements is that the minimum closing bid price per share not fall below $1.00 for more than 30 consecutive business days in a row. The Company received correspondence from NASDAQ On August 8, 2002, NASDAQ notified the Company that the minimum closing bid price for the Company' s common stock had fallen below the specified level for 30 consecutive business days, and therefore the Company' s common stock was subject to delisting from the NASDAQ National Market unless this deficiency was remedied within 90 days. On November 7, 2002, the Company was contacted by NASDAQ and advised that subject to the Company' s right to a hearing, its common stock would be delisted from the NASDAQ stock market quotation system as its stock had not achieved a minimum bid price of at least $1.00 for ten consecutive trading days during the 90 days subsequent to the original notice from NASDAQ on August 8, 2002. The Company requested a hearing to appeal the notice of delisting on November 14, 2002 with the NASDAQ Listing Qualifications Panel. That hearing occurred on December 19, 2002, at which time the Company requested the delisting be delayed until after the Company' s annual shareholders' meeting in February 2003. At the shareholders meeting on February 5, 2003, the shareholders approved a proposal to allow the Company' s Board of Directors, in its discretion to authorize a reverse stock split of between 1-5 and 1-20. The Board of Directors approved a 1-for-5 reverse stock split effective February 24, 2003. The Company' s minimum closing price has traded under $1.00 since May 7, 2003 There is no assurance that the Company will satisfy the bid price requirement or other NASDAQ requirements for continued listing on the NASDAQ National Market. If the Company' s common stock were to be delisted, it would seriously limit the liquidity of the common stock and impair the Company' s potential to raise future capital through the sale of the Company' s securities, which would have a material adverse effect on the Company' s business. Delisting could also reduce the ability of holders of the Company' s common stock to purchase or sell shares as quickly and inexpensively as they have done historically, and could have an adverse effect on the trading price of the Company' s common stock. Delisting could also adversely affect the Company' s relationships with vendors and customers.

**Regulatory Changes**

Recently enacted and proposed changes in securities laws and related regulation could result in increased costs to the Company. Recently enacted and proposed changes in the laws and regulations affecting public companies including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the SEC and NASDAQ could result in increased costs to the Company as it evaluates the implications of any new rules and responds to the requirements. The new rules could make it more difficult for the Company to obtain certain types of insurance, including directors and officer liability insurance and the Company may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the Company to attract and retain qualified persons to serve on the Company' s board of directors, or as executive officers. The Company is presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs the Company may incur or the timing of such costs.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company' s market risk has not changed significantly from the risks disclosed in Part II, Item 7A of the, Company' s Annual Report on Form 10-K for fiscal year 2002 under the heading "Quantitative and Qualitative Disclosures About Market Risk".

## ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Within the 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company' s disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b) Changes in internal controls. There were no significant changes in the Company' s internal controls or in other factors that could significantly affect those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

For information on Legal Proceedings see Note 13 to the Company' s Consolidated Condensed Financial Statements in Part 1 of this report on Form 10-Q, which information is incorporated herein by reference.

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

(a) Exhibits

| | |
|---|---|
| 4.5 | Amended and Restated Regisration Rights Agreement dated as of April 1, 2003 by and among Read- Rite Corporation and the holders of the warrants. |
| 10.69 | First Amendment to Credit Agreement by and among Read-Rite Corporation, the lenders listed hereof and Tennenbaum Capital Partners LLC as administrative agent for Lenders dated as of April 1, 2003. |
| 10.70 | Second Amendment to Credit Agreement by and among Read-Rite Corporation, the lenders listed hereof and Tennenbaum Capital Partners LLC as administrative agent for Lenders dated as of April 1, 2003. |
| 99.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |

(b) Reports on Form 8-K

On April 9, 2003, Read-Rite Corporation (the "Company") issued a press release announcing that it was notifying all shareholders of its recent financing with Tennenbaum Capital Partners LLC and explaining the basis for the exception it received from Nasdaq concerning relief from the requirement for obtaining shareholder approval in connection with this transaction. The press release also announced that, on March 31, 2003, the Company amended and restated its Preferred Shares Rights Agreement, dated as of March 3, 1997, by and between Read-Rite and Mellon Investor Services LLC (formerly ChaseMellon Shareholder Services, LLC) (the "Original Rights Agreement") to, among other things, avoid a Triggering Event upon the issuance or exercise of the warrants in connection with the Tennenbaum financing.

On April 29, 2003, the Company filed a current report on Form 8-K to provide Regulation FD disclosure in connection with the issuance of a press release regarding results for the second quarter ended March 30, 2003.

## SIGNATURE

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

READ-RITE CORPORATION

Date: May 14, 2003

By: /s/ ANDREW C. HOLCOMB

Senior Vice President, Finance and Chief Financial Officer

**READ-RITE CORPORATION**
**CERTIFICATIONS**

I, Alan S. Lowe, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Read-Rite Corporation;

(2) Based on my knowledge, this quarterly 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 quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

(4) The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant' s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

(d) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant' s ability to record, process, summarize and report financial data and have identified for the registrant' s auditors any material weaknesses in internal controls; and

(e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant 's internal controls; and

(6) The registrant' s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ ALAN S. LOWE
Name: Alan S. Lowe
Title: President & Chief Executive Officer

**READ-RITE CORPORATION**
**CERTIFICATIONS**

I, Andrew C. Holcomb, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Read-Rite Corporation;

(2) Based on my knowledge, this quarterly 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 quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

(4) The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within these entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant' s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant' s ability to record, process, summarize and report financial data and have identified for the registrant' s auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant 's internal controls; and

(6) The registrant' s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ ANDREW C. HOLCOMB
Name: Andrew C. Holcomb
Title: Senior Vice President and Chief Financial Officer

**Exhibit 4.5**

# AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT

THIS AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT (the "Agreement") is made as of April 1, 2003 by and among Read-Rite Corporation, a Delaware corporation (the "Company"), and the holders of Warrants (as defined below) as listed on Exhibit A (the "Holders"). All capitalized terms used and not otherwise defined in this Agreement shall have the meanings set forth in the Credit Agreement (as defined below).

## RECITALS

WHEREAS, the Company and certain of the Holders entered into that certain Credit Agreement dated December 24, 2002 (as amended, the "Credit Agreement") providing for, among other things, the loan by certain of the Holders to the Company up to $30 million pursuant to the terms and conditions of the Credit Agreement and the Company issued to the Holders the Initial Warrants (as defined below) to purchase 24,102,277 shares of the Company' s Common Stock, which represented nineteen and nine-tenths percent (19.9%) of the Company' s Common Stock outstanding as of December 24, 2002, at an exercise price of $0.27 per share (4,820,454 shares after a five-for-one reverse split and elimination of fractional shares, at an exercise price of $1.35 per share); and

WHEREAS, the Holders and the Company have agreed to amend the Credit Agreement to provide for a $5,000,000 Senior Secured Tranche B Term Loan and an additional $2,500,000 in availability, among other amendments to the Credit Agreement, and in connection therewith the Company will issue New Warrants (as defined below) to purchase 6,000,000 shares of the Company' s Common Stock at a price of $0.65 per share and Conditional Warrants (as defined below) to purchase 20,000,000 shares of the Company' s Common Stock at a price of $0.25 per share;

WHEREAS, the execution of the Credit Agreement by the Holders originally executing the Credit Agreement and extension of credit to the Company thereunder and execution by the Holders of the amendments to the Credit Agreement described above was and is conditioned upon the extension with respect to the Warrants and the Registrable Securities (as defined below) of the rights set forth herein, including the registration rights set forth herein, and the Company desires to extend such rights.

NOW THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Registration Rights.

1.1 Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Affiliate" as applied to any person, means any other person directly or indirectly controlling, controlled by, or under common control with, that person. For the purposes of this

definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities or by contract or otherwise.

"Approved Fund" means a Fund that is administered or managed by (i) an Investor, (ii) an Affiliate of an Investor or (iii) an entity or an Affiliate of an entity that administers or manages an Investor.

"Commission" shall mean the Securities and Exchange Commission of the United States or any other U.S. federal agency at the time administering the Securities Act.

"Common Stock" shall mean the common stock, $0.0001 par value, of the Company.

"Conditional Warrants" shall mean a series of Warrants that provide for the aggregate issuance of 20,000,000 shares (post-split) of Common Stock at an exercise price equal to $0.25 per share.

"Fund" means any person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Initial Warrants" means a series of Warrants issued in connection with the Credit Agreement that provide for the aggregate issuance of 24,102,277 shares of Common Stock at a price of $0.27 per share (4,820,454 shares after a five-for-one reverse split and elimination of fractional shares at an exercise price of $1.35 per share).

"Initiating Investors" shall mean Investors who in the aggregate hold at least thirty percent (30%) of the Registrable Securities and join in a request referred to in Section 1.2(a).

"Investor" shall mean each of the Holders (and their transferees as permitted by Section 1.11) holding Registrable Securities or Warrants exercisable for Registrable Securities.

"New Warrants" shall mean a series of Warrants that provide for the aggregate issuance of 6,000,000 shares (post-split) of Common Stock at an exercise price equal to $0.65 per share.

"Other Investors" shall mean investors in Company securities, other than Investors, proposing to distribute their securities pursuant to a registration referred to in this Agreement.

"Registrable Securities" means any Common Stock issuable or issued on exercise of the Warrants now held or hereafter acquired by any Investor. Shares of Common Stock shall not be treated as Registrable Securities if they have been sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction. For purposes of determining voting or ownership thresholds under this Agreement with respect to Registrable

Securities, Common Stock which may be purchased upon exercise of the Warrants will be deemed outstanding for such purpose.

The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of that registration statement.

"Registration Expenses" shall mean all expenses, excluding Selling Expenses (as defined below) except as otherwise stated below, incurred by the Company in complying with Sections 1.2, 1.3 and 1.4 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company and reasonable fees and disbursements of counsel for any Investor or Investors which hold more than thirty percent (30%) of the Registrable Securities sought to be included in the offering, Blue Sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company).

"Rule 145 Transaction" shall mean a transaction described under Rule 145 as promulgated under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder, or any similar United States federal statute.

"Selling Expenses" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the securities registered by Investors. These expenses shall be borne by Investors.

"Selling Investors" shall mean each Investor who holds Registrable Securities included in a registration statement under the Securities Act pursuant to this Agreement.

"Warrants" shall mean the Initial Warrants, the New Warrants and the Conditional Warrants.

1.2 Requested Registrations.

(a) Request for Registration. In case the Company shall receive from Initiating Investors a written request that the Company effect any registration, qualification or compliance with respect to Registrable Securities offered to the public which have an anticipated aggregate offering price of not less than $10,000,000)(a "Registration Notice"), the Company will:

(i) promptly give written notice of the proposed registration, qualification or compliance to all other Investors; and

(ii) as soon as practicable, use its best efforts to effect the registration, qualification or compliance (including, without limitation, appropriate qualification under applicable Blue Sky or other state securities laws and appropriate compliance with

applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Investor joining in such request as are specified in a written request received by the Company from any Investor within fifteen (15) days after such Investor' s receipt of the written notice from the Company. Notwithstanding the foregoing, the Company shall not be obligated to take any action to effect any registration, qualification or compliance pursuant to this Section 1.2:

(A) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(B) After the Company has effected four registrations pursuant to this Section 1.2, and such registrations have been declared or ordered effective; or

(C) If the Company shall furnish to such Investors a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to the Company or its shareholders for a registration statement to be filed in the near future, then the Company' s obligation to use its best efforts to register, qualify or comply under this Section 1.2 shall be deferred for a period not to exceed sixty (60) days from the date of receipt of written request from the Initiating Investors, provided, however, that the Company shall not utilize this right more than once in any twelve (12) month period, and may not use this right if the Company has utilized the right in Section 1.4 (b)(ii) within the previous twelve (12) months, and provided, further, the Company may not use this provision in connection with the filing by the Company of a registration statement. If the Company utilizes this Section 1.2(a)(ii)(C), then the Company agrees to pay to each Investor who holds thirty percent (30%) or more of the Registrable Securities sought to be registered (and to each Investor who holds less than thirty percent (30%) of such Registrable Securities a pro rata portion determined by dividing the percentage of the total Registrable Securities which are sought to be included in the registration which are held by such Investor by thirty percent (30%)), as liquidated damages, and not as a penalty, the sum of $10,000 per day for each day (not to exceed sixty (60) days) that this provision is used to delay the filing of the registration. The Company and the Investors agree that the Investors will suffer damages if the Company uses this provision and that it would not be feasible to ascertain the extent of such damages with precision.

Subject to the foregoing clauses (A) through (C), the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable, and in any event within twenty-five (25) days after receipt of the request or requests of the Initiating Investors.

(b) Underwriting. In the event that a registration pursuant to this Section 1.2 is for a registered public offering involving an underwriting, the Company shall so advise the Investors as part of the notice given pursuant to Section 1.2(a)(i). In that event, the right of any Investor to registration pursuant to Section 1.2 shall be conditioned upon that

Investor' s participation in the underwriting arrangements required by this Section 1.2, and the inclusion of that Investor' s Registrable Securities in the underwriting to the extent requested shall be limited to the extent provided herein. The Company shall (together with all Investors and Other Investors proposing to distribute their securities through the underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for the underwriting by Investors holding a majority of the Registrable Securities held by all Investors participating in the offering, but subject to the reasonable approval of the Company. The inclusion of securities of Other Investors proposing to distribute their securities through an underwriting shall require the consent of at least sixty percent (60%) of the Registrable Securities sought to be included in the offering. Notwithstanding any other provision of this Section 1.2, if the managing underwriter advises the Initiating Investors in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Company shall so advise all Investors and Other Investors proposing to distribute their securities through such underwriting, and the number of shares that may be included in the registration and underwriting shall be allocated only to the Investors on a pro rata basis based upon ownership of Registrable Securities. No Registrable Securities or other securities excluded from the underwriting by reason of the underwriter' s marketing limitation shall be included in the registration. No Other Investor shall participate in a registration pursuant to this Section 1.2 if such participation would reduce the number of shares includable by the Investors unless the holders of at least sixty percent (60%) of the Registrable Securities sought to be included in the offering consent to such participation. If any Investor or Other Investor disapproves of the terms of the underwriting, that person may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the Initiating Investors. The Registrable Securities and/or other securities with respect to which such notice is given shall be withdrawn from the registration. If an Investor so elects, the Company shall use its best efforts to cause the underwriter to purchase Warrants from the Investor and shall permit the underwriter to exercise the Warrants and sell the underlying Common Stock in the registration. This Warrant purchase provision shall also apply to an underwritten registration pursuant to Sections 1.3(b) and 1.4(a).

1.3 Company Registrations.

(a) Notice of Registration. If the Company shall determine to register any of its securities, either for its own account or the account of a security holder or holders, other than (i) a registration relating solely to stock option or other employee benefit plans or (ii) a registration relating solely to a Commission Rule 145 transaction, the Company will:

(i) promptly give to each Investor written notice thereof; and

(ii) include in such registration (and any related qualification under Blue Sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests received by the Company from any Investor within seven (7) days after that Investor' s receipt of the written notice from the Company (such inclusion will not reduce the rights of Investors under Sections 1.2 and 1.4).

(b) Underwriting. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Investors as a part of the written notice given pursuant to Section 1.3(a)(i). In such event the

right of any Investor to registration pursuant to this Section 1.3 shall be conditioned upon that Investor' s participation in the underwriting and the inclusion of Registrable Securities in the underwriting to the extent provided herein. All Investors proposing to distribute their securities through such underwriting shall, together with the Company and Other Investors, enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Company. Notwithstanding any other provision of this Section 1.3, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities and other securities to be included in the registration. The Company shall so advise all Investors and Other Investors, and the number of shares that may be included in the registration and underwriting shall be allocated to the Company (if the registration has been initiated by the Company) and the Investors in a manner so that no less than fifty percent (50%) of the number of shares that may be included in the offering shall be allocated among the holders of Registrable Securities. To facilitate the allocation of shares in accordance with the above provisions, the Company may round the number of shares allocated to any Investor or Other Investor to the nearest one hundred (100) shares. No Other Investor shall participate in a registration pursuant to this Section 1.3 if such participation would reduce the number of shares includable by the Investors unless the holders of at least sixty percent (60%) of the Registrable Securities sought to be included in the registration consent to such participation. If any Investor or Other Investor disapproves of the terms of the underwriting, that person may elect to withdraw therefrom by written notice to the Company and the managing underwriter. Any securities so withdrawn from the underwriting shall be withdrawn from the registration.

(c) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 1.3 prior to the effectiveness of the registration whether or not any Investor has elected to include Registrable Securities in the registration; provided, however, if the requisite number of Investors elect to use one of their demand registration rights, pursuant to Section 1.2 hereof, then the registration shall be governed by Section 1.2 and it shall not be terminated by the Company.

1.4 Registrations on Form S-3.

(a) Request for Registration. If at any time or from time to time any Investor or Investors request that the Company file a registration statement on Form S-3 (or any successor form to Form S-3) for a public offering of shares of the Registrable Securities with a reasonably anticipated aggregate price to the public of at least $2,000,000, the Company will:

(i) promptly give written notice of the proposed registration to all other Investors; and

(ii) shall use its best efforts to cause those Registrable Securities to be registered for the offering on that form and to cause such Registrable Securities to be qualified in those jurisdictions as the Investor or Investors may request, together with all or such portion of the Registrable Securities of any Investor joining in such request as are specified in a written request received by the Company from any Investor within ten (10) days after such Investor' s receipt of the written notice from the Company.

The substantive provisions of Section 1.2(b) shall be applicable to each such registration initiated under this Section 1.4 involving an underwriting and the Company shall include in such registration statement all information that the underwriter reasonably requests be included therein to assist in the marketing of the Registrable Securities. Only Registrable Securities shall be included in any registration under this Section 1.4.

(b) Limitations. Notwithstanding the foregoing, the Company shall not be obligated to take any action pursuant to this Section 1.4:

(i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting a registration, qualification or compliance unless the Company is already subject to service in that jurisdiction and except as may be required by the Securities Act;

(ii) if the Company shall furnish to the Investors a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to the Company or its shareholders for a registration statement to be filed in the near future, then the Company' s obligation to use its best efforts to file a registration statement shall be deferred for a period not to exceed sixty (60) days from the receipt of the request to file the registration by the Investor; provided, however, that the Company shall not utilize this right more than once in any twelve (12) month period, and may not use this right if the Company has utilized the right in Section 1.2(a)(ii)(C) within the previous twelve (12) months, and provided, further, the Company may not use this provision in connection with the filing by the Company of a registration statement. If the Company utilizes this section instead of 1.4(b)(ii), then the Company agrees to pay to each Investor who holds thirty percent (30%) of such Registrable Securities or more of the Registrable Securities sought to be registered (and to each Investor who holds less than thirty percent (30%) a pro rata portion determined by dividing the percentage of the total Registrable Securities which are sought to be included in the registration which are held by such Investor by thirty percent (30%)), as liquidated damages, and not as a penalty, the sum of $10,000 per day for each day (not to exceed sixty (60) days) that this provision is used to delay the filing of the registration. The Company and the Investors agree that the Investors will suffer damages if the Company uses this provision and that it would not be feasible to ascertain the extent of such damages with precision;

(iii) if the Company is not eligible to use Form S-3.

1.5 Limitations on Subsequent Registration Rights; No Inconsistent Agreements. From and after the date hereof, the Company will not, without the prior written consent of Investors holding sixty percent (60%) of the Registrable Securities, enter into any agreement with any Investor or prospective Investor of any securities of the Company extending registration rights to such Investor or prospective Investor. No agreement is outstanding or in effect granting registration rights to any party, including any agreement which impairs or limits the rights granted to Investors hereunder, or which conflicts with the provisions hereof or would preclude the Company from discharging its obligations hereunder.

1.6 Expenses of Registration.

(a) Registration Expenses. The Company shall bear all Registration Expenses incurred in connection with all registrations pursuant to Sections 1.2, 1.3 and 1.4. In the event the Initiating Investors withdraw a Registration Notice for a registered public offering involving an underwriting, abandon a registration statement or, following an effective registration pursuant to Section 1.2 hereof, do not sell Registrable Securities, then all Registration Expenses in respect of such Registration Notice shall be borne, at the Initiating Investors' option, either by the Initiating Investors or by the Company (in which case, if borne by the Company, the withdrawn or abandoned registration shall be deemed to be an effective registration for purposes of Section 1.2(a)(ii)(D) hereof); provided, that, if at the time of such withdrawal, the Initiating Investors have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Initiating Investors at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then all Registration Expenses in respect of such Registration Notice shall be borne by the Company and the withdrawn or abandoned registration shall not be deemed to be an effective registration for purposes of Section 1.2(a)(ii)(D) hereof.

(b) Selling Expenses. Unless otherwise stated, all Selling Expenses relating to securities registered on behalf of the Investors and Other Investors shall be borne by the Investors and Other Investors pro rata on the basis of the number of shares so registered.

1.7 Registration and Qualification. If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company will as promptly as is practicable:

(a) prepare and file with the Commission, as soon as practicable, and in any event within twenty-five (25) days after receipt of the registration request pursuant to Section 1.2(a), and fifteen (15) days after receipt of a registration request pursuant to Section 1.4(b), use its best efforts to cause to become effective as soon as practicable and remain effective for at least one hundred eighty (180) days following its effectiveness, a registration statement under the Securities Act relating to the Registrable Securities to be offered on the form as the Initiating Investors, or if not filed pursuant to Section 1.2 or Section 1.4 hereof, the Company, may determine and for which the Company then qualifies;

(b) prepare and file with the Commission any amendments (including post-effective amendments) and supplements to the registration statement and the prospectus used in connection therewith as may be necessary to keep the registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities until the earlier of the time that all of the Registrable Securities have been disposed of in accordance with the intended methods of disposition set forth in the registration statement or the expiration of one hundred eighty (180) days after the registration statement becomes effective; provided that this one hundred eighty (180) day period shall be extended in the case of a registration pursuant to Section 1.2 hereof for that number of days that equals the number of days elapsing from (i) the date the written notice contemplated by Section 1.7(f) hereof is given by the Company to (ii) the date on which the Company delivers to the Selling Investors the supplement or amendment contemplated by Section 1.7(f) hereof;

(c) furnish to the Selling Investors and to any underwriter of Registrable Securities that number of conformed copies of the registration statement and of each amendment and supplement thereto (in each case including all exhibits), that number of copies of the prospectus included in the registration statement (including each preliminary prospectus and any summary prospectus), those documents incorporated by reference in such registration statement or prospectus, and any other documents, as the Selling Investors or the underwriter may reasonably request in order to facilitate the public offering of the securities;

(d) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the registration statement at the earliest possible moment;

(e) if requested by an Initiating Investor, (i) furnish to each Selling Investor an opinion of counsel for the Company addressed to each Selling Investor and dated the date of the closing under the underwriting agreement (if any) (or if the offering is not underwritten, dated the effective date of the registration statement), and (ii) use its best efforts to furnish to each Selling Investor a "comfort" or "special procedures" letter addressed to each Selling Investor and signed by the independent public accountants who have audited the Company' s financial statements included in the registration statement, in each case covering substantially the same matters with respect to the registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer' s counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities and any other matters as the Selling Investors may reasonably request and, in the case of the accountants' letter, with respect to events subsequent to the date of such financial statements;

(f) immediately notify the Selling Investors in writing (i) at any time when a prospectus relating to a registration hereunder is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in the registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) of any request by the Commission or any other regulatory body or other body having jurisdiction for any amendment of or supplement to any registration statement or other document relating to the offering, and in either case (i) or (ii), at the request of a Selling Investor, immediately prepare and furnish to those Selling Investors a reasonable number of copies of a supplement to or an amendment of the prospectus as may be necessary so that, as thereafter delivered to the Investors of the Registrable Securities, that prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading;

(g) use its best efforts to list all Registrable Securities covered by a registration statement on each securities exchange and inter-dealer quotation system on which a class of common equity securities of the Company is then listed, and to pay all fees and expenses in connection therewith;

(h) upon the transfer of shares by a Selling Investor in connection with a registration hereunder, furnish unlegended certificates representing ownership of the

Registrable Securities being sought in denominations as shall be requested by the Selling Investors or the underwriters;

(i) keep Investors advised as to the initiation of each registration, qualification and compliance and as to the completion thereof;

(j) register or qualify the Registrable Securities covered by such registration statement under the securities or blue sky laws of such states as the Investors shall reasonably request, maintain any such registration or qualification current until the earlier of the sale of the Registrable Securities so registered or ninety (90) days subsequent to the effective date of the registration statement, and take any and all other actions either necessary or advisable to enable the Investors to consummate the public sale or other disposition of the Registrable Securities in jurisdictions where the Investors desire to effect such sales or other disposition (but the Company shall not be required to take any action that would subject it to the general jurisdiction of the courts of any jurisdiction in which it is not so subject or to qualify as a foreign corporation in any jurisdiction where the Company is not so qualified, unless the Company is already subject to service in such jurisdiction);

(k) cause its Chief Executive Officer and Chief Financial Officer to conduct and participate in good faith in investor meetings and road show presentations as reasonably requested by the underwriter in any underwritten public offering or by the Investor in any registration which is not underwritten;

(l) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering;

(m) provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration; and

(n) furnish the Investors, at least five business days before filing a registration statement that registers such Registrable Securities, with a draft registration statement and copies of all such documents proposed to be filed therewith.

1.8 Indemnification.

(a) By Company. The Company will indemnify each Investor, each of its officers, directors, partners, members and agents, and each person controlling a Investor within the meaning of Section 15 of the Securities Act, with respect to whom registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact

required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Securities Act or any rule or regulation promulgated under the Securities Act applicable to the Company in connection with a registration, qualification or compliance, and the Company will reimburse each Investor, each of its officers, directors, partners, members and agents, each person controlling an Investor, each underwriter and each person who controls any underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any claim, loss, damage, liability or action, provided that the Company will not be liable in any case to the extent that any claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by a Investor, controlling person or underwriter and stated to be specifically for use therein.

(b) By Investors. Each Selling Investor will indemnify the Company, each of its directors, officers and agents, each underwriter, if any, of the Company' s securities covered by such a registration statement, each person who controls the Company or an underwriter within the meaning of Section 15 of the Securities Act, and each other Selling Investor, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in a registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, the Selling Investors, directors, officers, partners, members, agents, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that the untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in the registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company pursuant to Section 1.9 by an instrument duly executed by such Selling Investor and stated to be specifically for use therein. Notwithstanding the foregoing, the liability of each Selling Investor under this subsection (b) shall be limited in an amount equal to the net proceeds from the shares sold by that Selling Investor, unless such liability arises out of or is based on willful misconduct by the Selling Investor.

(c) Procedure for Indemnification. Each party indemnified under paragraph (a) or (b) of this Section 1.8 (the "Indemnified Party") shall, promptly after receipt of notice of any claim or the commencement of any action against such Indemnified Party in respect of which indemnity may be sought, notify the party required to provide indemnification (the "Indemnifying Party") in writing of the claim or the commencement thereof; provided that the failure of the Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability it may have to an Indemnified Party on account of the indemnity agreement contained in paragraph (a) or (b) of this Section 1.8, unless the Indemnifying Party was materially prejudiced by that failure, and in no event shall relieve the Indemnifying Party from any other liability it may have to that Indemnified Party. If any claim or action shall be brought against an Indemnified Party, it shall notify the Indemnifying Party thereof and the Indemnifying Party shall be entitled to participate therein, and, to the extent that

it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of any claim or action, the Indemnifying Party shall not be liable (except to the extent the proviso to this sentence is applicable, in which event it will be so liable) to the Indemnified Party under this Section 1.8 for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided that each Indemnified Party shall have the right to employ separate counsel to represent it and assume its defense (in which case, the Indemnifying Party shall not represent it) if (i) upon the advice of counsel, the representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, or (ii) in the event the Indemnifying Party has not assumed the defense thereof within ten (10) days of receipt of notice of such claim or commencement of action, and in each case the fees and expenses of separate counsel for an Investor or Investors holding twenty-five percent (25%) of the Registrable Securities shall be paid by the Indemnifying Party, and in the case of the parties indemnified by the Investors, one separate counsel shall be paid for by the Investors as Indemnifying Parties. If any Indemnified Party employs such separate counsel, it will not enter into any settlement agreement not approved by the Indemnifying Party, whose approval is not to be unreasonably withheld. If the Indemnifying Party so assumes the defense thereof, it may not agree to any settlement of any claim or action as the result of which any remedy or relief, other than monetary damages for which the Indemnifying Party shall be responsible hereunder, shall be applied to or against the Indemnified Party, without the prior written consent of the Indemnified Party. In any action hereunder as to which the Indemnifying Party has assumed the defense thereof with counsel reasonably satisfactory to the Indemnified Party, the Indemnified Party shall continue to be entitled to participate in the defense thereof, with counsel of its own choice, but, except as set forth above, the Indemnifying Party shall not be obligated hereunder to reimburse the Indemnified Party for the costs thereof.

If the indemnification provided for in this Section 1.8 shall for any reason be unavailable to an Indemnified Party in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each Indemnifying Party shall, in lieu of indemnifying that Indemnified Party, contribute to the amount paid or payable by that Indemnified Party as a result of the loss, claim, damage or liability, or action in respect thereof, in such proportion as shall be appropriate to reflect the relative fault of the Indemnifying Party on the one hand and the Indemnified Party on the other with respect to the statements or omissions that resulted in the loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied specifically for use in any registration statement, prospectus, offering circular or other similar document by the Indemnifying Party on the one hand or the Indemnified Party on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission, but not by reference to any Indemnified Party' s stock ownership in the Company. In no event, however, shall an Investor of Registrable Securities be required to contribute in excess of the amount of the net proceeds received by that Investor in connection with the sale of Registrable Securities in the offering that is the subject of the loss, claim, damage or liability. The amount paid or payable by an Indemnified Party as a result of the loss,

claim, damage or liability, or action in respect thereof, referred to above in this paragraph shall be deemed to include, for purposes of this paragraph, any legal or other expenses reasonably incurred by the Indemnified Party in connection with investigating or defending the action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 12(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of a fraudulent misrepresentation.

1.9 Information by Investor. Investors including any Registrable Securities in any registration shall, upon request, furnish to the Company that information regarding each of them as shall be necessary to enable the Company to comply with the provisions hereof in connection with any registration, qualification or compliance referred to in this Agreement.

1.10 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission that may at any time permit the sale of the Restricted Securities to the public without registration, after a public market exists for the Common Stock of the Company, the Company agrees to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date that the Company becomes subject to the reporting requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act");

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) furnish to any Investor forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company and other information in the possession of or reasonably obtainable by the Company as the Investor may reasonably request in availing itself of any rule or regulation of the Commission allowing that Investor to sell any securities without registration.

1.11 Transfer of Registration Rights. The rights to cause the Company to register securities granted Investors under Sections 1.2, 1.3 and 1.4 and all other rights hereunder may be assigned only in connection with any transfer or assignment of Warrants or Registrable Securities by an Investor provided that: (a) the transfer may otherwise be effected in accordance with applicable securities laws; (b) unless waived, the transfer is effected in compliance with the restrictions on transfer contained in this Agreement and/or the Warrant, and (c) the assignee or transferee (i) is a partner or retired partner or employee or former employee of any Investor which is a partnership or of the general partner of such Investor, or a member or retired member or employee or former employee of any Investor which is a limited liability company or of the managing member of such an Investor, (ii) is a family member of or a trust for the benefit of any individual Investor, (iii) is an Affiliate of Investor or an Approved Fund or (iv) receives at least

500,000 shares of Registrable Securities and/or Warrants exercisable into Registrable Securities and agrees in writing to be bound by the terms of this Agreement and assumes all of the obligations of the transferring Investor hereunder. Subject to the terms of Section 1.13, below, no transfer or assignment will divest an Investor or any subsequent owner of those rights and powers with respect to the shares of Registrable Securities still held, unless all Registrable Securities and Warrants are transferred or assigned.

1.12 Termination of Registration Rights. The registration rights granted in Sections 1.2, 1.3 and 1.4 shall terminate, with respect to each Investor, or at such time as all Registrable Securities held by that Investor constitute less than one percent (1.0%) of the voting securities of the Company (on an as-exercised basis) and can be sold pursuant to Rule 144, without regard to Rule 144(k), within a consecutive three (3) month period without compliance with the registration requirements of the Securities Act. The respective indemnities, representations and warranties of the Investors and the Company shall survive a termination of registration rights by reason of this Section 1.13.

2. Information Rights.

2.1 Financial Information. If requested by Tennenbaum Capital Partners, LLC ("TCP") the Company will provide to TCP the following information for so long as TCP and its affiliates collectively hold ten percent (10%) or more of the issuable Registrable Securities held by them as of the date of this Agreement:

(a) as soon as practicable after the end of each fiscal year, and in any event within ninety (90) days thereafter, a consolidated balance sheet of the Company and its subsidiaries, if any, as of the end of such fiscal year, and consolidated statements of income, stockholders' equity and cash flows of the Company and its subsidiaries, if any, for that year, prepared in accordance with generally accepted accounting principles ("GAAP") and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and all audited by a nationally recognized public accounting firm.

(b) monthly unaudited financial statements of the Company and its subsidiaries within twenty (20) days after the end of each month.

(c) as soon as practicable after the end of each fiscal quarter and in any event within forty-five (45) days thereafter, a consolidated balance sheet of the Company and its subsidiaries, if any, as of the end of the quarter, consolidated statements of income, consolidated statements of changes in financial condition, and a consolidated statement of cash flow of the Company and its subsidiaries for the quarter and for the current fiscal year to date, and setting forth in each case in comparative form the figures for corresponding months in the previous fiscal year, and setting forth in comparative form the budgeted figures for such quarter and for the current fiscal year then reported, prepared in accordance with GAAP (other than for accompanying notes), subject to changes resulting from year-end audit adjustments, all in reasonable detail and signed by the principal financial or accounting officer of the Company.

(d) an annual operating plan for the next fiscal year of the Company containing revenue projections, profit and loss projections, cash flow projections, and capital

expenditures, all on a quarterly basis, as soon as it is available but in any event within thirty (30) days prior to the end of each fiscal year.

2.2 Additional Information. The Company will allow TCP to visit and inspect any of the properties of the Company (upon reasonable advance notice) and will deliver or provide to TCP, with reasonable promptness, any information and data, including access to books, records, officers and accountants, with respect to the Company and its subsidiaries as TCP may from time to time reasonably request; provided, however, that the Company shall not be obligated to provide any information that it considers in good faith to be a trade secret or to contain confidential or classified information unless TCP enters into a confidentiality agreement with the Company.

2.3 Confidential Treatment of Information. TCP' s right to receive information pursuant to this Section 2 is subject to the execution and delivery by TCP of a nondisclosure agreement in form and substance mutually satisfactory to the Company and TCP. TCP agrees to use its reasonable efforts to maintain the confidentiality of all nonpublic information obtained by it from the Company; provided, that (a) TCP may, to the extent required by law, disclose that information in connection with the sale or transfer of any Registrable Securities or Warrants exercisable for Registrable Securities, if TCP' s transferee agrees in writing to be bound by the provisions hereof, and (b) TCP may disclose that information (i) at the request of any applicable regulatory authority or in connection with an examination of the Company by that authority, (ii) pursuant to subpoena or other court process, (iii) when required to do so in accordance with the provisions of any applicable law, and (iv) to the Company' s independent auditors and other professional advisors provided those persons acknowledge and agree to be bound by TCP' s confidentiality obligations hereunder.

2.4 Aggregation. For purposes of this Section 2, "TCP" shall include any general partners and affiliates of TCP. For any such aggregated group, the entity in such group owning the greatest number of shares in the Company shall receive the financial information described in Section 2.1 hereof.

3. Board Observation Rights; Board Representation; Employee Incentive Plans; Initial Warrants Antidilution Waiver.

(a) Board Observation Rights. TCP and its affiliates shall have the right to select a representative to receive notice of and any other materials prepared for directors in connection with such meeting (at the same time and in the same manner as directors) and to attend meetings of the Board of Directors as an observer (a "Board Observer") and shall continue to have such right until such time as they collectively own less than ten percent (10%) of the issuable Registrable Securities held by TCP and its affiliates as of the date of this Agreement. The Company will pay all reasonable out-of-pocket expenses incurred by an observer in connection with attendance at meetings of the Board of Directors.

(b) Right to Appoint. So long as the Holders hold in the aggregate at least five percent (5%) of the fully diluted shares of Common Stock of the Company then outstanding on a cumulative basis (excluding any options under all employee, consultant, officer or director incentive arrangements or plans now or hereafter in existence), Lenders (as defined in

the Credit Agreement) shall have the right at any time to require the board of directors of the Company: (i) to appoint two independent board members (but in no event less than 28% of the number of directors authorized (including the requirement in (ii) below to expand the board) to serve on the board of directors of the Company) reasonably acceptable to the Requisite Lenders (as defined in the Credit Agreement); and (ii) to expand the board if needed to accommodate such appointment subject to any legal requirement that such appointees be elected by Company' s stockholders at the next regularly scheduled annual stockholders' meeting. Company agrees to include such individuals in the state of nominees in the proxy statement for such meeting and all subsequent meetings involving the election of directors as long as the Administrative Agent (as defined in the Credit Agreement) so requires.

(c) Employee Incentive Plans. The Company covenants and agrees that (i) at no time after the date hereof shall the total number of shares of Common Stock issuable or issued after the date hereof on a cumulative basis without duplication and net of any cancelled or terminated options, under all employee, consultant, officer or director incentive arrangements or plans in existence as of the date hereof or as may hereafter be adopted by the board of directors of the Company or any committee thereof exceed in the aggregate 15% of the fully diluted shares of Common Stock then outstanding (excluding the Contingent Warrants); (ii) subject at all times to the limitation specified in clause (i), the aggregate number of shares of Common Stock issued or issuable pursuant to new grants or awards under all employee incentive plans in any of Company' s 2003, 2004 or 2005 Fiscal Years shall not exceed 4% of the fully diluted shares of Common Stock then outstanding (calculated without regard to any repurchases of such shares pursuant to any plan or cancellation or termination of options); provided that if the number of shares of Common Stock issued or issuable under new grants or awards in any of such Fiscal Years is less than the maximum allowed in such Fiscal Year (including any carryover amounts available in such Fiscal Year by virtue of this proviso), such unused amount shall be carried over and added to the maximum number of shares that would otherwise be allowable under clause (ii) for the following Fiscal Year; and (iii) all awards and grants after the date hereof (a) that do not provide for annual vesting over a period of at least 4 years with no vesting prior to the end of any year of the vesting period and no more than 25% vesting at the end of each year of the vesting period (except at maturity) shall require approval of the Board of Directors of the Company and (b) shall provide for "double-trigger" acceleration upon a change of control consistent with the provisions of Company' s existing employee incentive plans. The covenants set forth in this Section 3(c) are solely for the benefit of, and may be enforced, modified or waived only by, TCP and its affiliates.

(d) Initial Warrants Antidilution Waiver. The Holders hereby waive the right to any adjustment of the Purchase Price under Section 8(f) of the Initial Warrants (and any corresponding adjustment to the number of shares subject to the Initial Warrants under Section 8(h) thereof) as a result of the issuance of the New Warrants and Conditional Warrants and any shares of Common Stock issued upon exercise of the New Warrants or Conditional Warrants. This waiver shall only apply precisely as written and shall not constitute a waiver with respect to any future issuance or a waiver of any other terms of the Initial Warrants. The Holders of the Initial Warrants agree to promptly exchange the Initial Warrants for amended and restated warrants identical to the form of the Initial Warrants but incorporating the provisions of this Section 3(d) therein following the date hereof.

4. Miscellaneous.

4.1 Waivers and Amendments. With the written consent of the Company and the Investors holding more than sixty percent (60%) of the aggregate Registrable Securities, the obligations of the Company and the rights of the Investors under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively and either for a specified period of time or indefinitely), and with the same consent on the part of the Investors, the Company, when authorized by resolution of its board of directors, may amend this Agreement or enter into a supplementary agreement for the purpose of adding any provisions to this Agreement. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by a signed statement in writing. Any amendment, waiver or supplementary agreement effected in accordance with this paragraph shall be binding upon the Company, each Investor and each future Investor.

4.2 Notices. All notices and other communications required or permitted hereunder shall be in writing (or in the form of a telex or telecopy (confirmed in writing) to be given only during the recipient' s normal business hours unless arrangements have otherwise been made to receive a notice by telex or telecopy outside of normal business hours) and shall be mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand, messenger, or telex or telecopy (as provided above) addressed (a) if to a Investor, at the address for that Investor set forth on Exhibit A hereto or at any other address as that Investor shall have furnished to the Company in writing, or until an Investor so furnishes an address to the Company, then to and at the address of the last Investor of such securities who has so furnished an address to the Company, or (b) if to the Company, to its principal executive offices and addressed to the attention of the Corporate Secretary, or at any other address as the Company shall have furnished in writing to the Investors. Notices shall be effective on receipt.

4.3 Descriptive Headings. The descriptive headings herein have been inserted for convenience only and shall not be deemed to limit or otherwise affect the construction of any provisions hereof.

4.4 Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of California as applied to agreements among California residents, made and to be performed entirely within the State of California.

4.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument, but only one of which need be produced.

4.6 Facsimile Signatures. Any signature page delivered by a fax machine or telecopy machine shall be binding to the same extent as an original signature page, with regard to any agreement subject to the terms hereof or any amendment thereto. Any party who delivers such a signature page agrees to later deliver an original counterpart to any party which requires it.

4.7 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable

attorney' s fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

4.8 Successors and Assigns. Except as otherwise expressly provided in this Agreement, this Agreement shall benefit and bind the successors, assigns, heirs, executors and administrators of the parties to this Agreement.

4.9 Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject matter of this Agreement.

4.10 Separability; Severability. Unless expressly provided in this Agreement, the rights of each Investor under this Agreement are several rights, not rights jointly held with any other Investors. Any invalidity, illegality or limitation on the enforceability of this Agreement with respect to any Investor shall not affect the validity, legality or enforceability of this Agreement with respect to the other Investors. If any provision of this Agreement is judicially determined to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired.

4.11 Stock Splits. All references to numbers of shares in this Agreement shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization of shares by the Company occurring after the date of this Agreement.

4.12 Specific Performance. Each Investor, in addition to all other remedies available at law or in equity, will be entitled to specific performance of its rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agrees to waive the defense in any action seeking specific performance that a remedy at law would be adequate.

4.13 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Investor, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on an Investor' s part of any breach, default, or noncompliance, under the Agreement or any waiver on such Investor' s part of any provisions or conditions of this Agreement must be in writing an shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Investors, shall be cumulative and not alternative.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**COMPANY:**

READ-RITE CORPORATION
a Delaware corporation

By: /s/ Andrew C. Holcomb
Sr. Vice President Finance and C.F.O.

**INVESTORS:**

SPECIAL VALUE BOND FUND II, LLC
By: SVIM/MSM II, LLC
Its: Managing Member

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

SPECIAL VALUE ABSOLUTE RETURN FUND, LLC

By: SVAR/MM, LLC
Its: Managing Member

By: TENNENBAUM CAPITAL PARTNERS,LLC
Its: Managing Member

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ MICHAEL E. TENNENBAUM
Name: Michael E. Tennenbaum
Title: Managing Member

J.B. FUQUA FAMILY CHARITABLE LEAD
ANNUITY TRUST−2000

By: TENNENBAUM CAPITAL PARTNERS, LLC
Its: Investment Manager

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

## EXHIBIT A

### Investors

| Investor Name and Contact Information | Number of Registrable Securities (Post-Split) |
|---|---|
| **Initial Warrants** | |
| Special Value Absolute Return Fund, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 3,173,466 |
| Special Value Bond Fund II, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 1,566,648 |
| J.B. Fuqua Family Charitable Lead Annuity Trust−2000<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 80,340 |
| **New Warrants** | |
| Special Value Absolute Return Fund, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 3,950,000 |
| Special Value Bond Fund II, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 1,950,000 |
| J.B. Fuqua Family Charitable Lead Annuity Trust−2000<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 100,000 |

**Conditional Warrants**

| | |
|---|---|
| Special Value Absolute Return Fund, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 13,166,666 |
| Special Value Bond Fund II, LLC<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 6,500,000 |
| J.B. Fuqua Family Charitable Lead Annuity Trust−2000<br>c/o Tennenbaum & Co., LLC<br>11100 Santa Monica Boulevard, Suite 210<br>Los Angeles, California 90025 | 333,334 |

**Exhibit 10.69**

**READ-RITE CORPORATION**

**FIRST AMENDMENT**
**TO CREDIT AGREEMENT**

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "Amendment") is dated as of April 1, 2003 and entered into by and among **READ-RITE CORPORATION**, a Delaware corporation ("Company"), **THE LENDERS LISTED ON THE SIGNATURE PAGES HEREOF** (each individually referred to herein as a "Lender" and collectively as "Lenders"), and **TENNENBAUM CAPITAL PARTNERS, LLC** (formerly known as Special Value Investment Management, LLC), as administrative agent for Lenders (in such capacity, "Administrative Agent") and, for purposes of Section 4 hereof, the Credit Support Parties (as defined in Section 4 hereof) listed on the signature pages hereof, and is made with reference to that certain Credit Agreement dated as of December 24, 2002, (the "Credit Agreement"), by and among Company, Lenders, and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

**RECITALS**

WHEREAS, Company and Lenders desire to amend the Credit Agreement to (i) add a new Tranche B Term Loan facility, (ii) revise certain affirmative covenants, (iii) revise certain negative covenants, and (iv) make certain other amendments as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT.

1.1 Amendments to Section 1: Provisions Relating to Defined Terms.

A. Subsection 1.1 of the Credit Agreement is hereby amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

"**Charge Over Shares**" means that certain Charge Over Shares in the capital stock of Read-Rite International dated April 1, 2003, made by Company in favor of Administrative Agent and Lenders covering the Capital Stock of Read-Rite International, executed and delivered on the First Amendment Effective Date, as such Charge Over Shares may thereafter be amended, supplemented, restated, or otherwise modified from time to time.

"**Consolidated EBITDA**" means, with respect to any fiscal period, in each case as determined in accordance with GAAP consistently applied and without duplication, (i) Consolidated Net Income for such period of Company and its Subsidiaries on a consolidated basis, less (ii) any non-cash items that increased net income for such

period, plus (iii) consolidated cash interest expense of Company and its Subsidiaries for that period, plus (iv) the aggregate amount of federal and state taxes on or measured by income of Company and its Subsidiaries for that period and any foreign taxes incurred by reason of any "deemed dividend" arising under Internal Revenue Code §956 by reason of the pledge of the stock of Read-Rite International to Administrative Agent, in each case to the extent paid or accrued for that period, plus (v) depreciation and amortization of Company and its Subsidiaries for that period, plus (vi) any other non-cash charges (excluding any non-cash charges that constitute an accrual of or reserve for future cash payments or a write-down of any obligation owed to Company or any of its Subsidiaries) that reduced Consolidated Net Income of Company and its Subsidiaries for such period.

"**Consolidated Net Income**" means, with respect to any fiscal period, the net income (or loss) of Company and its Subsidiaries on a consolidated basis as determined in accordance with GAAP consistently applied; provided that there shall be excluded (i) the income (or loss) of any Person (other than a Subsidiary of Company) in which any other Person (other than Company or any of its Subsidiaries) has a joint interest, except to the extent of the amount of cash dividends or other distributions actually paid to Company or any of its Subsidiaries by such Person during such period, (ii) the income (or loss) of any Person accrued prior to the date it became a Subsidiary of Company or was merged into or consolidated with Company or any of its Subsidiaries or such Person' s assets were acquired by Company or any of its Subsidiaries, (iii) any net income (but not loss) of any Subsidiary of Company if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions, directly or indirectly, to Company or any of its Subsidiaries, (iv) any gain realized upon the sale, license or other disposition of any asset of Company or any of its Subsidiaries other than inventory sold or otherwise disposed of in the ordinary course of business, (v) any gain attributable to a judgment obtained in, or settlement of, litigation, (vi) any gain or loss attributable to any Pension Plan reversion, (vii) the cumulative effect of a change in accounting principles, and (viii) (to the extent not included in clauses (i) through (vii) above) any net extraordinary gains (including, without limitation, income or expenses related to foreign exchange, swaps or other derivative transactions); and provided further, that any tax benefit or tax liability resulting from any item specified in clauses (iv)- (vi) shall be excluded in calculating such Consolidated Net Income.

"**Contingent Warrants**" means those certain 7-year detachable warrants in the form annexed as Annex F to this Amendment to purchase 20,000,000 shares of Company' s common stock at an exercise price equal to $0.25 per share. Such warrants shall provide that the holder thereof shall be entitled to purchase 10,000,000 shares of Company' s common stock at any time on or after the date of issuance, and shall be entitled to purchase 10,000,000 shares of Company' s common stock only upon satisfaction of certain vesting conditions set forth therein.

"**December 2002 Appraisal**" means that certain Appraisal of Selected Machinery and Equipment of Read-Rite Corporation: Net Orderly Liquidation Value, prepared for Special Value Investment Management, LLC, by Emerald Technology Valuations, LLC, dated December 23, 2002.

"**New Warrants**" means those certain 7-year detachable warrants in the form annexed as Annex E to this Amendment to purchase 6,000,000 shares of Company' s common stock at an exercise price equal to $0.65 per share.

"**Prepayment Fee**" has the meaning assigned to that term in subsection 2.4B(ii).

"**Preferred Shares Rights Agreement**" means the Preferred Shares Rights Agreement dated as of March 3, 1997 between Company and Chase Mellon Shareholders Services, L.L.C. as Rights Agent, as amended.

"**Pricing Certificate**" means an Officer' s Certificate of Company certifying Consolidated EBITDA for any Fiscal Quarter and setting forth the calculation of such Consolidated EBITDA in reasonable detail, which Officer' s Certificate may be delivered to Administrative Agent at any time on or after the date of delivery by Company of the Compliance Certificate with respect to the period ending on the last day of such Fiscal Quarter.

"**Second Draw**" has the meaning assigned to such term in subsection 2.1(A)(ii).

"**Second Draw Date**" means the date following the First Amendment Effective Date, but on or before April 30, 2003, upon which each of the conditions precedent set forth in subsection 4.3 shall have been satisfied.

"**Tranche A Term Notes**" means (i) the promissory notes of Company issued pursuant to subsection 2.1D on the Closing Date, and (ii) any promissory notes issued by Company pursuant to subsection 10.1B(i) in connection with assignments of the Tranche A Term Loan Commitments or Tranche A Term Loans of any Lenders in the form of Exhibit IV annexed hereto (with appropriate insertions), in each case as they may be amended, supplemented or otherwise modified from time to time.

"**Tranche A Term Loan Commitment**" means the commitment of a Lender to make Tranche A Term Loans to Company pursuant to subsection 2.1A(i), and "Tranche A Term Loan Commitments" means such commitments of all Lenders in the aggregate.

"**Tranche A Term Loan Exposure**", with respect to any Lender, means, as of any date of determination (i) to the extent not yet funded at such time, that Lender' s remaining Tranche A Term Loan Commitment, and (ii) the outstanding principal amount of the Tranche A Term Loans of that Lender at such time.

"**Tranche A Term Loans**" means the Loans made by Lenders to Company pursuant to Section 2.1A(i).

"**Tranche A Term Loan Lender**" means any Lender who holds a Tranche A Term Loan Commitment or who has made Tranche A Term Loans hereunder and any assignee of such Lender prior to subsection 10.1B.

"**Tranche B Term Loan Commitment**" means the commitment of a Lender to make Tranche B Term Loans to Company on the First Amendment Effective Date and the Second Draw Date pursuant to subsection 2.1A(ii), and "Tranche B Term Loan Commitments" means such commitments of all Lenders in the aggregate.

"**Tranche B Term Loan Exposure**" means, with respect to any Lender as of any date of determination (i) to the extent not yet funded at such time, that Lender' s remaining Tranche B Term Loan Commitment and (ii) the outstanding principal amount of the Tranche B Term Loan of that Lender at such time.

"**Tranche B Term Loan Lender**" means any Lender who holds a Tranche B Term Loan Commitment or who has made a Tranche B Term Loan hereunder and any assignee of such Lender pursuant to subsection 10.1B.

"**Tranche B Term Loans**" means the Loans made by the Tranche B Term Loan Lenders to Company pursuant to subsection 2.1A(ii).

"**Tranche B Term Notes**" means (i) the promissory notes of Company issued pursuant to subsection 2.1D on the First Amendment Effective Date, and (ii) any promissory notes issued by Company pursuant to subsection 10.1B(i) in connection with assignments of the Tranche B Term Loan Commitments or Tranche B Term Loans of any Lenders in the form of Exhibit IV-B annexed hereto (with appropriate insertions), in each case as they may be amended, supplemented or otherwise modified from time to time.

"**Type**" means with respect to a Term Loan, a Tranche A Term Loan or a Tranche B Term Loan (each of which is a 'Type' of Term Loan)."

B. Subsection 1.1 of the Credit Agreement is hereby further amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

"**First Amendment**" means the First Amendment to Credit Agreement dated as of April 1, 2003, by and among Company, the Lenders named therein, and Administrative Agent, which amends this Agreement.

"**First Amendment Effective Date**" has the meaning assigned thereto in the First Amendment."

C. The definition of "Domestic PP&E Value" in subsection 1.1 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"**Domestic PP&E Value**" means, (i) for the period from the First Amendment Effective Date through September 30, 2003 an amount equal to $10,000,000 (less the appraised value of any Eligible PP&E included in the December 2002 Appraisal that is damaged, destroyed or disposed of, plus (but only up to the amount of the aggregate reductions by virtue of asset dispositions) the orderly liquidation value (based on an appraisal approved by the Administrative Agent and calculated in the manner currently provided in the Credit Agreement) of any new Eligible PP&E acquired by the

Company subsequent to the date thereof) and, (ii) for all periods after September 30, 2003, the amount determined by Administrative Agent to be 72% of the appraised value, on an orderly liquidation basis, of the Company' s Eligible PP&E (based on the then most recent appraisal thereof delivered pursuant to Section 4.1G or Section 6.5 and calculated in the manner currently provided in this Agreement)."

D. The definition of "Collateral Documents" in Subsection 1.1 of the Credit Agreement is hereby amended by adding at the end thereof the phrase "and the Charge Over Shares".

E. The definition of "Obligations" in subsection 1.1 of the Credit Agreement is hereby amended by deleting it therefrom in its entirety and substituting the following therefor:

"**Obligations**" means all obligations of every nature of each Loan Party from time to time owed to Administrative Agent, Collateral Agent, Lenders or any of them under the Loan Documents, whether for principal, interest, fees, Prepayment Fees, expenses, indemnification or otherwise.

F. The definition of "Pro Rata Share" in subsection 1.1 of the Credit Agreement is hereby amended by deleting it therefrom in its entirety and substituting the following therefor:

" '**Pro Rata Share**' means:

(i) with respect to all payments, computations and other matters relating to the Tranche A Term Loan Commitment or the Tranche A Term Loan of any Lender, the percentage obtained by dividing (x) the Tranche A Term Loan Exposure of that Lender by (y) the aggregate Tranche A Term Loan Exposure of all Lender;

(ii) with respect to all payments, computations and other matters relating to the Tranche B Term Loan Commitment or the Tranche B Term Loan of any Lender, the percentage obtained by dividing (x) the Tranche B Term Loan Exposure of that Lender by (y) the aggregate Tranche B Term Loan Exposure of all Lenders;

(iii) for all other purposes with respect to each Lender, the percentage obtained by dividing (x) the Term Loan Exposure of that Lender by (y) the aggregate Term Loan Exposure of all Lenders, in any such case as the applicable percentage may be adjusted by assignments permitted pursuant to subsection 10.1.

The Pro Rata Share of each Lender for purposes of each of clauses (i), (ii) and (iii), of the preceding sentence is set forth opposite the name of that Lender in Schedule 2.1 annexed hereto (as amended on the First Amendment Effective Date)."

G. The definitions of "Term Loans" and "Term Loan Commitment" in subsection 1.1 of the Credit Agreement are hereby amended by deleting them in their entirety and substituting the following therefor:

"**Term Loans**" means the Tranche A Term Loans made by Lenders to Company pursuant to subsection 2.1A(i) and the Tranche B Term Loans made by Lenders to Company pursuant to subsection 2.1A(ii).

"**Term Loan Commitment**" means the commitment of a Lender to make Term Loans to Company pursuant to subsection 2.1A(i) and/or subsection 2.1A(ii), and "Term Loan Commitments" means such commitments of all Lenders, in the aggregate.

H. The definition of "Consolidated Net Worth" in subsection 1.1 of the Credit Agreement is hereby amended by deleting it therefrom in its entirety and substituting the following therefor:

"**Consolidated Net Worth**" means, as at any date of determination, the sum of the capital stock and additional paid-in capital plus (i) retained earnings (or minus accumulated deficits) of Company and its Subsidiaries on a consolidated basis, (ii) non-cash non-recurring restructuring charges incurred after the Closing Date, (iii) non-cash special charges against assets incurred after the Closing Date, (iv) non-cash assets impairment charges incurred after the Closing Date, and (v) non-cash charges relating to the issuance or exercise of the Warrants, the New Warrants and the Contingent Warrants, in each case determined in conformity with GAAP.

1.2 Amendments to Section 2: Amounts and Terms of Commitments and Loans.

A. Subsection 2.1A(i) of the Credit Agreement is hereby amended by deleting in its entirety and substituting the following therefor:

"(i) Tranche A Term Loans. Each Lender having a Tranche A Term Loan Commitment severally agrees to lend to Company from time to time during the period from and including the Closing Date to but excluding the Commitment Termination Date an amount not exceeding its Pro Rata Share of the aggregate amount of the Tranche A Term Loan Commitments to be used for the purposes identified in subsection 2.5A; provided that Company shall not request, and Lenders shall have no commitment to make, any Loan if, after giving effect thereto, the aggregate principal amount of Loans (excluding the amount of Tranche B Term Loans) outstanding would exceed the Aggregate Collateral Value at such time. The amount of each Lender' s Tranche A Term Loan Commitment is set forth opposite its name on Schedule 2.1 annexed hereto and the aggregate amount of the Tranche A Term Loan Commitments is $30,000,000; provided that the Tranche A Term Loan Commitments of Lenders shall be adjusted to give effect to any assignments of the Tranche A Term Loan Commitments pursuant to subsection 10.1B. Each Lender' s Tranche A Term Loan Commitment shall expire immediately and without further action on the Commitment Termination Date to the extent Tranche A Term Loans have not been made on or before that date. Amounts borrowed under this subsection 2.1A(i) and subsequently repaid or prepaid may not be reborrowed."

B. Subsection 2.1A of the Credit Agreement is hereby amended by adding the following paragraph thereto, immediately following subsection 2.1(A)(i):

"(ii) Tranche B Term Loans. Each Lender having a Tranche B Term Loan Commitment severally agrees to lend to Company on the First Amendment Effective Date and on the Second Draw Date an aggregate amount not exceeding it Pro Rata Share of the aggregate amount of the Tranche B Term Loan Commitments to be used for the purposes identified in subsection 2.5A; provided that the aggregate amount of Tranche B Term Loans made on the First Amendment Effective Date (the "First Draw") shall not exceed $1,500,000, the aggregate amount of Tranche B Term Loans made on the Second Draw Date (the "Second Draw") shall not exceed $3,500,000, and the aggregate amount of all Tranche B Term Loans shall not exceed the Tranche B Term Loan Commitments. Tranche B Term Loans may not be made on any dates except the First Amendment Effective Date and the Second Draw Date. The amount of each Lender' s Tranche B Term Loan Commitment is set forth opposite its name on Schedule 2.1 annexed to the First Amendment and the aggregate amount of the Tranche B Term Loan Commitments is $5,000,000; provided that the Tranche B Term Loan Commitments of Tranche B Term Loan Lenders shall be adjusted to give effect to any assignments of the Tranche B Term Loan Commitments pursuant to subsection 10.1B. Each Tranche B Term Loan Lender' s Tranche B Term Loan Commitment shall expire immediately and without further action on the Tranche B Commitment Termination Date if the Tranche B Term Loans are not made on or before that date. Company may make only two borrowings under the Tranche B Term Loan Commitments. Amounts borrowed under this subsection 2.1A(ii) and subsequently repaid or prepaid may not be reborrowed."

C. Subsection 2.1D of the Credit Agreement is hereby amended by deleting the first sentence thereof in its entirety and substituting the following therefor:

"D. Notes. Company has executed and delivered on the Closing Date and/or shall execute and deliver on the First Amendment Effective Date, as the case may be, (i) to each Lender having a Commitment for that Type of Loan (or to Administrative Agent for that Lender) (a) a Tranche A Term Note substantially in the form of Exhibit IV annexed hereto to evidence that Lender' s Tranche A Term Loan, in the principal amount of that Lender' s Tranche A Term Loan Commitment and with other appropriate insertions, (b) a Tranche B Term Note substantially in the form of Exhibit IV-B annexed hereto to evidence that Lender' s Tranche B Term Loan, in the principal amount of that Lender' s Tranche B Term Loan Commitment and with other appropriate insertions."

D. Subsection 2.2A of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

A. Rate of Interest. Subject to the provisions of subsections 2.6 and 2.7, (x) each Tranche A Term Loan funded on the Closing Date from that date and (y) as to all other Tranche A Term Loans, from and after the first day of the term thereof that (subject to the special provisions of this subsection 2.2) is a 3, 6, 9 or 12 month anniversary of the date that is the Closing Date, as to all Tranche B Term Loans from and after the first day of the term thereof that (subject to the special provisions of this subsection 2.2) is a monthly anniversary of the date that is the Closing Date (as applicable, each, an "Interest Period Date"), shall bear interest on the unpaid principal amount thereof through maturity (whether by acceleration or otherwise) at a rate

determined by reference to the Eurodollar Rate. Each Term Loan that is made on a date other than an Interest Period Date shall initially bear interest at the rate determined by reference to the Base Rate from the date made until the next succeeding Interest Period Date applicable to such Type Term Loan.

"(i) Subject to the provisions of subsections 2.2E, 2.2G and 2.7, the Tranche A Term Loans shall bear interest through maturity as follows:

(a) if a Base Rate Loan, then at the sum of the Base Rate plus 9% per annum; or

(b) if a Eurodollar Rate Loan, then at the sum of the Eurodollar Rate plus 10% per annum.

(ii) Subject to the provisions of subsections 2.2E, 2.2G and 2.7, the Tranche B Term Loans shall bear interest through maturity as follows:

(a) if a Base Rate Loan, then at the sum of the Base Rate plus the Base Rate Margin set forth in the table below opposite the applicable Consolidated EBITDA level for the Fiscal Quarter for which a Pricing Certificate has been delivered pursuant to subsection 6.1(iv); or

(b) if a Eurodollar Rate Loan, then at the sum of the Eurodollar Rate plus the Eurodollar Rate Margin set forth in the table below opposite the applicable Consolidated EBITDA level for the Fiscal Quarter for which a Pricing Certificate has been delivered pursuant to subsection 6.1(iv):

| Consolidated EBITDA | Eurodollar Rate Margin | Base Rate Margin |
|---|---|---|
| Greater than $20,000,000 | 7.0% | 6.00% |
| Greater than $10,000,000 or equal to but less than $20,000,000 | 8.5% | 7.5% |
| Less than $10,000,000 | 10.0% | 9.0% |

(iii) Upon delivery of a Pricing Certificate relating to a Fiscal Quarter by Company to Administrative Agent pursuant to subsection 6.1(iv), the Base Rate Margin and the Eurodollar Rate Margin applicable to the Tranche B Term Loans shall automatically be adjusted in accordance with such Pricing Certificate, such adjustment to become effective on the first day of the first Interest Period commencing after the date of the receipt by Administrative

Agent of such Pricing Certificate; provided that, if at any time (A) a Pricing Certificate is not delivered at the time required pursuant to subsection 6.1(iv), or (B) an Event of Default shall have occurred and be continuing, the applicable margins shall be adjusted on the first day of the first Interest Period commencing after the date said Pricing Certificate was due or the date of the Event of Default, as applicable to the maximum percentage amount for the relevant Tranche B Term Loans set forth above and shall thereafter remain in effect until the first day of the first Interest Period commencing after the date said Pricing Certificate is delivered or Event of Default is cured, if ever."

E. Subsection 2.2B of the Credit Agreement is hereby amended by deleting the first clause of subsection 2.2B(i) in its entirety and substituting the following therefor:

"(i) Each Tranche A Term Loan bearing interest at the Eurodollar Rate shall consist of successive three month interest periods and each Tranche B Term Loan bearing interest at the Eurodollar Rate shall consist of one month interest periods (each three month or one month period, as applicable, an "Interest Period")"

F. Subsection 2.2F of the Credit Agreement is hereby amended by deleting the first sentence of subsection 2.2F in its entirety and substituting the following therefor:

"F. Computation of Interest. Interest on the Loans shall be computed on the basis of a 360-day year, for the actual number of days elapsed in the period during which it occurs."

G. Subsection 2.4B(ii) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"(ii) Prepayment Fee. With respect to any prepayment of the principal amount of Term Loans, the Company shall, in addition to the amount prepaid and as part of the Obligations owing hereunder, pay to each Lender in partial compensation for such prepayment a prepayment fee (the "Prepayment Fee") in an amount equal to the positive difference, if any, of (i) the present value on the date of prepayment of the principal amount of such prepayment plus interest thereon at the Deemed Rate (as hereinafter defined) for the remaining term of the Loans, absent the prepayment, discounted to said date using a discount rate equal to the Treasury Rate (as hereinafter defined) plus 0.50% per annum, less (ii) the then outstanding principal balance thereunder, absent the prepayment.

For purposes hereof, "Deemed Rate" shall mean a fixed rate per annum equal to the sum of (i) Eurodollar Rate as in effect as of two Business Days prior to the prepayment date (as if a Eurodollar Rate Loan for an Interest Period was to be made on the prepayment date) plus (ii) the Eurodollar Rate Margin for a Tranche A Term Loan or a Tranche B Term Loan, as applicable, using the highest margins provided in subsection 2.2A(ii)(b). For purposes of the Deemed Rate, the Interest Payment Dates thereof shall

be the same dates as that for Base Rate Loans and the maturity shall be the maturity date of Base Rate Loans.

For purposes hereof, "Treasury Rate" shall mean the yield of the United States government treasury notes with the closest matching maturity to the Interest Period assumed for the Deemed Rate as of two (2) Business Days prior to the prepayment date as published in The Wall Street Journal (and if more than one such issue, the issue with the coupon rate closest to the Deemed Rate). If the publication of The Wall Street Journal is discontinued or publication of the yield of United States treasury notes in The Wall Street Journal is discontinued, Administrative Agent shall, in its reasonable discretion, designate some other daily financial or governmental publication of national circulation as the source of this information.

If the Obligations are accelerated for any reason, including, without limitation, because of default, sale, transfer or encumbrance (including that by operation of law or otherwise), the Prepayment Fee set forth above will also be due and payable as though said indebtedness was voluntarily prepaid and shall constitute part of the Obligations, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of each Lender' s lost profits as a result thereof. The Prepayment Fee shall be presumed to be the liquidated damages sustained by each Lender as the result of the early termination and Borrower agrees that it is reasonable under the circumstances currently existing. COMPANY EXPRESSLY WAIVES THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE OR LAW WHICH PROHIBITS OR MAY PROHIBIT THE COLLECTION OF THE FOREGOING PREPAYMENT FEE IN CONNECTION WITH ANY SUCH ACCELERATION, INCLUDING, WITHOUT LIMITATION, CALIFORNIA CIVIL CODE SECTION 2954.10.

Company expressly agrees that: (i) the Prepayment Fee provided for herein is reasonable; (ii) the Prepayment Fee shall be payable notwithstanding the then prevailing market rates at the time payment is made; (iii) there has been a course of conduct between Lenders and Company giving specific consideration in this transaction for such agreement to pay the Prepayment Fee; and (iv) Company shall be estopped hereafter from claiming differently than as agreed to in this paragraph. Company expressly acknowledges that its agreement to pay the Prepayment Fee to Lenders as herein described is a material inducement to Lenders to make the Term Loans."

H. Subsection 2.4B(iii)(e) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"(e) Application of Payments. Any prepayments pursuant to subsection 2.4B(iii) shall be applied to prepay first the Tranche A Term Loans on a pro rata basis (in accordance with the respective outstanding principal amounts thereof) until paid in full and thereafter to the Tranche B Term Loans on a pro rata basis (in accordance with the respective outstanding principal amounts thereof)."

I. Subsection 2.4D(ii) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"(ii) thereafter, (a) to the extent of any excess proceeds, first to the payment of all interest, principal and expenses under the Tranche A Term Loans for the ratable benefit of the Tranche A Term Loan Lenders and second, to all other Obligations (excluding the Tranche B Term Loans) which shall have become due and payable pursuant to the Credit Agreement or otherwise and not repaid above, and then (b) to the payment of all interest, principal and expenses under the Tranche B Term Loans for the ratable benefit of the Tranche B Term Loan Lenders."

1.3 Amendment to Section 4: Conditions to Loans.

A. Section 4 of the Credit Agreement is hereby amended by adding thereto immediately following subsection 4.2 the following:

"4.3 Conditions to Second Draw of Tranche B Term Loans. The obligation of Lenders to make the Second Draw on the Tranche B Term Loans is subject to the following conditions precedent, in addition to those set forth in subsection 4.2:

A. The First Amendment Effective Date shall have occurred.

B. The Second Draw shall not occur prior to April 2, 2003.

1.4 Amendment to Section 5: Company' s Representations and Warranties.

A. Section 5 of the Credit Agreement is hereby amended by adding thereto immediately following subsection 5.17 the following:

"5.18 Exception to Stockholder Approval Requirement. The audit committee of the board of directors of Company has expressly approved reliance on Rule 4350(i)(2) of the National Association of Securities Dealers, Inc.' s NASD Manual (the "NASD Rule") on the basis of its determination that the delay in securing stockholder approval would seriously jeopardize the financial viability of Company. Application has been made to the Nasdaq National Stock Market Inc. (the "SRO") as contemplated by the NASD Rule for an exception to the NASD Rule."

B. Section 5 of the Credit Agreement is hereby amended by adding thereto immediately following subsection 5.18 the following:

"5.19 Preferred Shares Rights Plan. None of Lenders, Administrative Agent or any of their Affiliates or Associates are or will become an "Acquiring Person' as defined in or for purposes of the Preferred Shares Rights Agreement, as amended as contemplated by this Agreement."

1.5 Amendments to Section 6: Company' s Affirmative Covenants.

A. Section 6 of the Credit Agreement is hereby amended by adding at the end of 6.1(iv) thereof the following:

"and (d) other than with the delivery of monthly financial statements under subdivision (ii) above, a Pricing Certificate.

B. Section 6 of the Credit Agreement is hereby amended by adding thereto the following subsections, which shall be inserted immediately following subsection 6.15:

"6.16 Reduction of Sales Expenses. Company shall reduce its break even sales point expenses by an amount not less than $2,000,000 for the Company' s fiscal quarter ending June 29, 2003, and by an amount not less than an additional $2,000,000 (for a total of $4,000,000 in additional cost savings) for the fiscal quarter ending September 28, 2003. Company shall have a business plan in place not later than ten (10) days after the First Amendment Effective Date that provides for such reductions. Such reductions shall be measured against the Company' s break even sales point expenses for its fiscal quarter ended December 29, 2002. Company' s management will use its best judgment after September 28, 2003, to control these fixed costs to levels it deems appropriate for the Company' s business outlook. For the purposes of this Section 6.16, "sales point expenses" shall mean Company' s fixed costs which include the fixed cost component of the cost of goods sold and operating expenses, including expenses associated with research and development and expenses associated with sales and general administration, but excluding interest expense. Company shall provide Administrative Agent with supporting data evidencing the sales point expenses. Company shall deliver to the Administrative Agent promptly upon completion (and in the case of clause (i) no later than ten (10) days after the First Amendment Effective Date ) (i) a copy of the business plan referred to in this Section 6.16, (ii) a copy, or a written statement describing any amendments or modifications subsequently made to such plan, and (iii) a written statement describing management' s determinations regarding appropriate fixed cost levels for periods after September 28, 2003, and each material modification thereof."

"6.17 Preservation of NOL Carry-Forward. Company shall use its reasonable best efforts, taking into account the potential impact of the Warrants, New Warrants and Contingent Warrants, to preserve its net operating loss carry-forwards pursuant to Internal Revenue Code Section 382, and Company' s ability to utilize the same without reduction."

"6.18 SRO Approval. If the granting by the SRO of an exception from the NASD Rule has not been obtained before the First Amendment Effective Date, Company will use its best efforts to obtain such an exception from the SRO as soon as possible after the First Amendment Effective Date."

"6.19 Release of Charge Over Shares. Company shall promptly obtain from CIBC such documents as are necessary to release and terminate in full the "Charge

Over Shares" which remains in favor of CIBC with respect to the capital stock of Read-Rite International."

"6.20 Read-Rite International. On or before ten (10) days after the First Amendment Effective Date, Company shall deliver to Administrative Agent a new share certificate for 65 shares of Read-Rite International and shall certify to Lenders the capital stock outstanding of Read-Rite International. In addition, the Lenders and Company shall update the schedules to the Security Agreement in order to properly reflect the ownership of the capital stock of Read-Rite International.

1.6 Amendments to Section 7: Company' s Negative Covenants.

A. Subsection 7.6A of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

"7.6A. Minimum Consolidated Net Worth. Company shall not permit Consolidated Net Worth plus 50% of Net Securities Proceeds received after the Closing Date, to be less than the following amounts on the last day of each of the Company' s Fiscal Quarters set forth below:

| Period | Minimum Consolidated Net Worth |
|---|---|
| June 29, 2003 | ($5,000,000) |
| September 28, 2003 | ($5,000,000) |
| December 28, 2003 | $0 |
| March 28, 2004 | $10,000,000 |
| June 27, 2004 and each quarter thereafter | $20,000,000 |

B. Subsection 7.6B of the Credit Agreement (Quick Ratio Covenant) is hereby amended by deleting it in its entirety and "Intentionally Omitted" is substituted therefor.

C. Subsection 7.6 of the Credit Agreement is hereby amended by adding thereto the following immediately following subsection 7.6.B:

"7.6C Consolidated EBITDA. Company shall not permit Consolidated EBITDA for any of the periods set forth below to be less than the amount indicated below:

| Quarter Ended Period | Minimum Consolidated EBITDA | |
|---|---|---|
| | Single Quarter | Four Quarters Ending |
| Quarter Ended on June 29, 2003 | $7,500,000 | |
| Quarter Ended on September 28, 2003 | $12,000,000 | |
| Quarter Ended on December 28, 2003 | $15,000,000 | |
| Quarter Ended on March 28, 2004 | $10,000,000 on said quarter and on each quarter thereafter | $49,000,000 |
| Quarter Ended on June 27, 2004 | | $57,000,000 |
| Quarter Ended on September 26, 2004 | | $60,000,000 and on each four Fiscal Quarter Period ending thereafter |

D. Section 7 of the Credit Agreement is hereby amended by adding thereto the following immediately following subsection 7.15:

"7.16 Read Rite International. Company shall not permit Read Rite International to sell or encumber any capital stock of Read-Rite Thailand, or to incur any Indebtedness or other obligations after the First Amendment Effective Date, other than obligations owed to Company."

1.7 Substitution of Schedules.

A. Schedule 2.1 to the Credit Agreement is hereby amended by deleting said Schedule 2.1 in its entirety and substituting in place thereof a new Schedule 2.1 in the form of Annex A annexed hereto.

B. Schedule 5.6 to the Credit Agreement is hereby amended by adding the following as the last paragraph thereto:

"On January 16, 2003, a complaint for money damages was filed in the Superior Court of the State of California, Santa Clara County, by Limar Realty Corp. #2 against the Company, alleging that the Company failed to pay rent, operating expenses and associated interest and late fees due to Limar pursuant to the terms of a lease agreement, as amended, for a facility at 31 So. Milpitas Boulevard, Milpitas, Santa Clara County, California, and that the Company had thereby breached the terms of the lease agreement. The complaint sought money damages in the amount of all unpaid rent, operating expenses and associated interest and late fees through the date of trial plus all expenses incurred by Limar in enforcing the lease agreement."

1.8 Amendments to Exhibits.

A. The Exhibits to the Credit Agreement are hereby amended by adding a new Exhibit IV-B in the form of Annex B annexed hereto.

B. Each of the Company, the Lenders and the Administrative Agent agrees that following the First Amendment Effective Date that they shall amend Exhibit VIII (Compliance Certificate) to reflect the changes to Section 7 of the Credit Agreement which are set forth in this First Amendment.

C. Exhibit XI (Form of Assignment Agreement) to the Credit Agreement is hereby amended by deleting Section 1(d)(iii) thereof in its entirety and substituting the following therefor:

> "(iii) from and after the Settlement Date, Company shall make all payments under the Credit Agreement in respect of the Assigned Share (including all payments of principal and accrued but unpaid interest, commitment fees and letter of credit fees with respect thereto) (A) in the case of any such interest and fees that shall have accrued prior to the Settlement Date, to Assignor, and (B) in all other cases, to Assignee: provided that Assignor and Assignee shall make payments directly to each other to the extent necessary to effect any appropriate adjustments in any amount distributed to Assignor and/or Assignee by Company under the Loan Documents in respect of Assigned Share in the event, for any reason whatsoever, the payment of consideration by Section 1(b) occurs on a date other than the Settlement Date."

1.9 Termination of Limited Waiver.

A. Except as expressly provided in the following sentence, each of the Limited Waiver dated as of February 10, 2003 and the Limited Waiver dated as of March 21,

2003 to the Credit Agreement is hereby terminated. Until the first to occur of (i) April 4, 2004 and (ii) the execution of the proposed Second Amendment to Credit Agreement, the provisions of the February 10th Limited Waiver and the following provisions of the March 21st Limited Waiver shall remain effective: (1) Section 1(a) of the Limited Waiver which authorizes Company to deem Accounts owed by Samsung Electronics Co., Ltd. or Samsung Asia Pte., Ltd. in an aggregate book value not to exceed $3,000,000 as Eligible Accounts notwithstanding the existence of any setoff rights against such Accounts and (2) Section 1(b) of the Limited Waiver which authorizes the Company to incur certain indebtedness and to make certain deposits for the EULER Insurance Policy. Lenders hereby, in addition to the extension of the Limited Waivers set forth above, waive, until April 4, 2003 the default caused by Company' s failure to pay interest which was due as of Friday, March 28, 2003 pursuant to the terms of the Notes and Credit Agreement, provided, that, all of said past due interest shall be paid out of, and Company hereby irrevocably instructs and directs Lenders to pay out of, the proceeds otherwise payable to Company on the First Draw of the Tranche B Term Loans.

Section 2. Conditions To Effectiveness. Section 1 this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent being referred to herein as the "First Amendment Effective Date"):

A. On or before the First Amendment Effective Date, Company shall deliver or cause to be delivered to Lenders (or to Administrative Agent for Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel) the following, each, unless otherwise noted, dated the First Amendment Effective Date:

1. Certified copies of its Certificate or Articles of Incorporation, together with a good standing certificate from the Secretary of State of the State of Delaware, each dated a recent date prior to the First Amendment Effective Date;

2. Copies of its Bylaws, certified as of the First Amendment Effective Date by its corporate secretary or an assistant secretary;

3. Resolutions of (i) its Board of Directors approving and authorizing the execution, delivery, and performance of this Amendment and the other transactions contemplated hereby, and approving and authorizing the execution, delivery and payment of the Tranche B Term Notes to be issued on the First Amendment Effective Date (the "Tranche B Term Notes"), each certified as of the First Amendment Effective Date by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment, and (ii) the Audit Committee of the Board of Directors specifying that such Committee has determined that the delay inherent in seeking stockholder approval of the proposed issuance of the securities in connection with this transaction would seriously jeopardize the financial viability of the Company.

4. Signature and incumbency certificates of its officers executing this Amendment and the Tranche B Term Notes;

5. Executed copies of this Amendment; and

6. Executed copies of the Tranche B Term Notes, substantially in the form of Exhibit IV-B to the Agreement, as amended hereby, drawn to the order of each Tranche B Term Lender, in the principal amount of such Lender' s Tranche B Term Loan Commitment, and with other appropriate insertions.

B. Administrative Agent shall have received a Notice of Borrowing on or before the First Amendment Effective Date in accordance with subsection 4.2 of the Credit Agreement, requesting the borrowing of Tranche B Term Loans in an aggregate amount not to exceed $1,500,000.

C. The Proceeds of the Tranche B Loans shall be applied to bring the Tranche A Loans into compliance with the Borrowing Base, by book entry.

D. Lenders and their counsel shall have received originally executed copies of a favorable written opinion of (i) Wilson, Sonsini, Goodrich & Rosati, counsel for Company, in form and substance reasonably satisfactory to Administrative Agent and its counsel, dated as of the First Amendment Effective Date and setting forth substantially the matters designated in Annex C to this Amendment, and as to such other matters as Administrative Agent acting on behalf of Lenders may reasonably request, and (ii) Maples & Calder (Cayman Island counsel) with respect to the perfection and priority of the Lien of the Administrative Agent in the capital stock of Read Rite International. Company acknowledges that Lenders have elected to have the Pledged Shares (as defined in the Security Agreement) include 100% of the shares of Read Rite International.

E. Certified copies of the charter documents of Read Rite International, together with evidence of its good standing.

F. Company shall have provided Administrative Agent with evidence that IFCT will extend $6,000,000 in new credit to Read-Rite Thailand on terms and conditions reasonably acceptable to Lenders; provided, that, if despite Company good faith efforts it is unable to provide evidence of such financing, Company shall provide Administrative Agent with a written outline of its current best estimate of the timing, amount and terms of anticipated financing(s) which are in an aggregate amount of at least $6,000,000 to be provided by IFCT or other sources, which outline shall be certified by the CFO or CEO of the Company.

G. The First Amendment Effective Date shall have occurred on or before April 1, 2003.

H. On or before the First Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

I. Lenders shall have received the New Warrants and the Contingent Warrants.

J. Administrative Agent and Lenders shall be satisfied that the financing and issuance of the New Warrants and the Contingent Warrants comply with all legal and regulatory requirements, including the exemption from stockholder approval by the Company' s stockholders provided by 4350(1)(2) of the NASD Rules.

K. Company shall have paid a funding supplement (the "Funding Supplement") of $100,000 pro rata to the Lenders.

L. The Registration Rights Agreement shall have been amended and restated in the form annexed as Annex G to this Amendment to, among other things, (i) include the shares of common stock of Company issuable upon exercise of the New Warrants and Contingent Warrants as "Registrable Securities", (ii) increase from two to four the number of demand registrations available to the Holders of the Registrable Securities, and (iii) provide in Section 3(b) that stock option grants may allow time vesting in increments other than 25% per year if such grants are approved by the Board of Directors of the Company.

M. The Company shall have amended the Preferred Shares Rights Agreement in order to allow Administrative Agent, Lenders or any of their respective Affiliates to acquire the New Warrants and Contingent Warrants and the shares of common stock issuable thereunder (including shares which may become issuable by virtue of "anti-dilution" adjustments), plus up to an additional two percent (2%) of the outstanding common stock (as well as the Warrants previously issued to the Lenders and the shares of common stock issuable thereunder), without causing Administrative Agent, Lenders or any of their respective Affiliates or Associates (as defined in such Plan) to be "Acquiring Persons" under the Preferred Shares Rights Agreement.

N. On or before the First Amendment Effective Date, Company shall have delivered a signed and notarized original, in proper form for recording in the Real Property Records of Alameda County, California, the Acknowledgment to Leasehold Deed of Trust, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing, in the form attached as Annex D hereto (the "DT Acknowledgment")

O. On or before the First Amendment Effective Date, Company shall have paid in full any unpaid fees and expenses due and owing Administrative Agent or Lenders as of the First Amendment Effective Date.

P. Company shall have executed and delivered to Administrative Agent the Charge Over Shares.

Section 3. Company' s Representations And Warranties. In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, Company represents and warrants to each Lender that the following statements are true, correct and complete:

A. Corporate Power and Authority. Company has all requisite corporate power and authority to enter into this Amendment, to issue the Tranche B Term Notes and carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "Amended Agreement"). Company has all

requisite corporate power and authority to enter into, carry out the transactions contemplated by, and perform its obligations under the Amended and Restated Registration Rights Agreement and the Preferred Shares Rights Agreement, each as amended as contemplated by this Amendment (the "Related Agreements"). Each other Loan Party has all requisite corporate power and authority to enter into this Amendment to issue the New Warrants and Contingent Warrants, the DT Amendment, the Change Over Shares and to carry out the transactions contemplated thereby, and perform its obligations thereunder, including, without limitation this Amendment.

B. Authorization of Agreements. The execution and delivery of this Amendment, the performance of this Amendment and the Amended Agreement, the issuance, delivery and payment of the Tranche B Term Notes, and the execution, delivery and performance of the Related Agreements, have been duly authorized by all necessary corporate action on the part of Company. The execution, delivery and performance of this Amendment have been duly authorized by all necessary corporate action on the part of each other Loan Party.

C. No Conflict. The execution, delivery and performance by each Loan Party of this Amendment, the performance by Company of the Amended Agreement, the issuance, delivery and payment of the Tranche B Term Notes by Company, and the execution, delivery and performance of the Related Agreements, do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to any Loan Party or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of Loan Party or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on any Loan Party or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of, any Loan Party or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of any Loan Party or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of the Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of any Loan Party or any of its Subsidiaries, except for such approvals or consents which will be obtained on or before the First Amendment Effective Date and disclosed in writing to Lenders, provided, however, that, other than as set forth in Section 5.18 of the Credit Agreement, Company is making no representation as to the necessity of stockholder approval pursuant to Rules of the SRO in connection with the issuance of the New Warrants and the Contingent Warrants.

D. Governmental Consents. The execution, delivery and performance by each Loan Party of this Amendment, the performance by Company of the Amended Agreement, the issuance, delivery and payment of the Tranche B Term Notes by Company, and the execution, delivery and performance of the Related Agreements, do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body other than those previously obtained, provided, however, that, other than as set forth in Section 5.18 of the Credit Agreement, Company is making no representation as to the necessity of stockholder approval pursuant to Rules of the SRO in connection with the issuance of the New Warrants and the Contingent Warrants.

E. Acknowledgement of Obligations. The company hereby acknowledges, confirms and agrees that, as of the close of business on the date hereof, (i) the Company is indebted to the Lenders in the aggregate principal amount of $10,200,000 consisting of Tranche A Term Loans, plus accrued interest thereon, plus any Tranche B Term Loans made on the date hereof, and all such Loans and interest, and other Obligations under the Credit Agreement, are unconditionally owing by the company to the Lenders without offset, defense or counterclaim or any kind, nature or description whatsoever.

F. Binding Obligation. This Amendment, the Amended Agreement and the Related Agreements have been duly executed and delivered by Company and are, and the Tranche B Term Notes, when executed and delivered, will be the legally valid and binding obligations of Company, enforceable against Company in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability. This Amendment has been duly executed and delivered by each Loan Party and is the legally valid and binding obligations of such Loan Party , enforceable against such Loan Party in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

G. Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Section 4 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

H. Absence of Default. Except for those Defaults and Events of Default specifically covered in that certain Limited Waiver dated as of February 10, 2003 among Company, the Lenders signature thereto, Administrative Agent and the Credit Support Parties, no event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

Section 4. Acknowledgement And Consent. Company is a party to certain Collateral Documents specified in the Credit Agreement, in each case as amended through the First Amendment Effective Date, pursuant to which the Company has created Liens in favor of Administrative Agent on certain Collateral to secure the Obligations. The Subsidiary Guarantors are parties to the Subsidiary Guaranty and certain Collateral Documents specified in the Credit Agreement, in each case as amended through the First Amendment Effective Date, pursuant to which each Subsidiary Guarantor has (i) guarantied the Obligations and (ii) created liens in favor of Administrative Agent on certain Collateral to secure the obligations of each such party under the Subsidiary Guaranty of such party. Company and the Subsidiary Guarantors are collectively referred to herein as "Credit Support Parties" and the Guaranties and Collateral Documents referred to above are collectively referred to herein as the "Credit Support Documents".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendments of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance of all "Obligations," "Guarantied Obligations" and "Secured Obligations," as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including without limitation the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," as the case may be, in respect of the Amended Agreement. Without limiting the generality of the foregoing, each Credit Support Party acknowledges that, as a result of this Amendment, the "Obligations," "Guarantied Obligations" and "Secured Obligations," as the case may be, shall include obligations in respect of the Tranche B Term Loans, if any.

Each Credit Support Party acknowledges and agrees that the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

Each Credit Support Party (other than Company) acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 5. Miscellaneous.

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Company acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Company.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (INCLUDING WITHOUT LIMITATION SECTION 1646.5 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF ANOTHER LAW.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment, subject to the provisions of Section 3 hereof, shall become effective upon the execution of a counterpart hereof by Company, Requisite Lenders and each of the Subsidiary Guarantors and receipt by Company and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

F. Entire Agreement. This Amendment is the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior oral and written, and all contemporaneous oral, agreements between the parties with respect to the matters contained in this Amendment.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

COMPANY: READ-RITE CORPORATION

By: /s/ Andrew C. Holcomb
Title: Sr. Vice President Finance and C.F.O.

Notice Address:

44100 Osgood Road
Fremont, California 94539
Attention: Chief Financial Officer
Phone: (510) 683-7045
Fax: (510) 683-7102

ADMINISTRATIVE AGENT: TENNENBAUM CAPITAL PARTNERS, LLC

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

LENDERS:

SPECIAL VALUE BOND FUND II, LLC

By: SVIM/MSM II, LLC
Its: Managing Member

By: TENNENBAUM & Co., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

SPECIAL VALUE ABSOLUTE RETURN FUND, LLC

By: SVIM/MSM II, LLC
Its: Managing Member

By: TENNENBAUM CAPITAL MANAGEMENT, LLC,
Its: Managing Member

By: TENNENBAUM & Co., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

J.B. FUQUA FAMILY CHARITABLE LEAD ANNUITY TRUST–2000

By: TENNENBAUM CAPITAL PARTNERS, LLC,
Its: Investment Manager

By: TENNENBAUM & Co., LLC,
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co.,
LLC 11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

CREDIT SUPPORT PARTIES:

READ-RITE HOLDING COMPANY

By: /s/ Andrew C. Holcomb
Title: Director

READ-RITE INTERNATIONAL

By: /s/ Andrew C. Holcomb

Title: Director

Notice Address:

44100 Osgood Road
Fremont, California 94539
Attention: Chief Financial Officer
Phone: (510) 683-7045
Fax: (510) 683-7102

**ANNEX A**

Schedule 2.1

LENDER' S COMMITMENTS AND PRO RATA SHARES

| Lender | Term Loan Commitment | Pro Rata Share | Designated Payment Account |
|---|---|---|---|
| **Tranche A Term Loans** | | | |
| Special Value Absolute Return Fund, LLC | $19,750,000 | 65.80% | * |
| Special Value Bond Fund II, LLC | $ 9,750,000 | 32.50% | * |
| J.B. Fuqua Family Charitable Lead Annuity Trust–2000 | $ 500,000 | 1.70% | * |
| TOTAL | $30,000,000 | 100% | |

| Lender | Term Loan Commitment | Pro Rata Share | Designated Payment Account |
|---|---|---|---|
| **Tranche B Term Loans** | | | |
| Special Value Absolute Return Fund, LLC | $3,290,000 | 65.80% | * |
| Special Value Bond Fund II, LLC | $1,625,000 | 32.50% | * |
| J.B. Fuqua Family Charitable Lead Annuity Trust–2000 | $ 85,000 | 1.70% | * |
| TOTAL | $5,000,000 | 100% | |

* To be provided.

Annex A

**ANNEX B**

Exhibit IV-B

**FORM OF TRANCHE B TERM NOTE**

**READ-RITE CORPORATION**

$_____ Fremont, California
[ Date ]

FOR VALUE RECEIVED, READ-RITE CORPORATION, a Delaware corporation ("Company"), promises to pay to _____("Payee") or its assigns the principal amount equal to the lesser of (x) _____ ($[_____]) and (y) the aggregate unpaid principal amount of all advances made by Payee to Company as Tranche B Term Loans under the Credit Agreement referred to below. The principal amount of this Tranche B Term Note shall be payable on the dates and in the amounts specified in the Credit Agreement; provided that the last such installment shall be in an amount sufficient to repay the entire unpaid principal balance of this Tranche B Term Note, together with all accrued and unpaid interest thereon.

Company also promises to pay interest on the unpaid principal amount hereof, from the date hereof until paid in full, at the rates and at the times which shall be determined in accordance with the provisions of that certain Credit Agreement dated as of December 24, 2002, as amended, by and among Company, the financial institutions listed therein as Lenders, and Tennenbaum Capital Management, LLC (formerly known as Special Value Investment Management, LLC), as Administrative Agent (said Credit Agreement, as it may be amended, supplemented or otherwise modified from time to time, being the "Credit Agreement", the terms defined therein and not otherwise defined herein being used herein as therein defined).

This Tranche B Term Note is one of Company' s "Term Notes" and is issued pursuant to and entitled to the benefits of the Credit Agreement, to which reference is hereby made for a more complete statement of the terms and conditions under which the Tranche B Term Loan evidenced hereby were made and are to be repaid. This Tranche B Term Note is secured by the Collateral Documents.

All payments of principal and interest in respect of this Tranche B Term Note shall be made in lawful money of the United States of America in same day funds at such place as shall be designated in writing for such purpose in accordance with the terms of the Credit Agreement. Unless and until an Assignment Agreement effecting the assignment or transfer of this Tranche B Term Note shall have been accepted by Administrative Agent as provided in the Credit Agreement, Company and Administrative Agent shall be entitled to deem and treat Payee as the owner and holder of this Tranche B Term Note and the Tranche B Term Loans evidenced hereby. Payee hereby agrees, by its acceptance hereof, that before disposing of this Tranche B Term Note or any part hereof it will make a notation hereon of all principal payments previously made hereunder and of the date to which interest hereon has been paid; provided, however, that the failure to make a notation of any payment made on this Tranche B Term Note shall not limit

or otherwise affect the obligations of Company hereunder with respect to payments of principal of or interest on this Tranche B Term Note.

Whenever any payment on this Tranche B Term Note shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of the payment of interest on this Tranche B Term Note.

This Tranche B Term Note is subject to mandatory prepayment as provided in the Credit Agreement and to prepayment at the option of Company as provided in the Credit Agreement.

**THIS TRANCHE B TERM NOTE AND THE RIGHTS AND OBLIGATIONS OF COMPANY AND PAYEE HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (INCLUDING SECTION 1646.5 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.**

Upon the occurrence and during the continuance of an Event of Default, the unpaid balance of the principal amount of this Tranche B Term Note, together with all accrued and unpaid interest thereon, may become, or may be declared to be, due and payable in the manner, upon the conditions and with the effect provided in the Credit Agreement.

The terms of this Tranche B Term Note are subject to amendment only in the manner provided in the Credit Agreement.

This Tranche B Term Note is subject to restrictions on transfer or assignment as provided in the Credit Agreement.

No reference herein to the Credit Agreement and no provision of this Tranche B Term Note or the Credit Agreement shall alter or impair the obligations of Company, which are absolute and unconditional, to pay the principal of and interest on this Tranche B Term Note at the place, at the respective times, and in the currency herein prescribed.

Company promises to pay all costs and expenses, including reasonable attorneys' fees, all as provided in the Credit Agreement, incurred in the collection and enforcement of this Tranche B Term Note. Company and any endorsers of this Tranche B Term Note hereby consent to enewals and extensions of time at or after the maturity hereof, without notice, and hereby waive diligence, presentment, protest, demand and notice of every kind and, to the full extent permitted by law, the right to plead any statute of limitations as a defense to any demand hereunder.

IN WITNESS WHEREOF, Company has caused this Tranche B Term Note to be duly executed and delivered by its officer thereunto duly authorized as of the date and at the place first written above.

READ-RITE CORPORATION

By: _____

Title: _____

**Exhibit 10.70**

**READ-RITE CORPORATION**

**SECOND AMENDMENT**
**TO CREDIT AGREEMENT**

This SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of April 1, 2003 and entered into by and among READ-RITE CORPORATION, a Delaware corporation, ("Company"), THE LENDERS LISTED ON THE SIGNATURE PAGES HEREOF (each individually referred to herein as a "Lender" and collectively as "Lenders"), and TENNENBAUM CAPITAL PARTNERS, LLC (formerly known as Special Value Investment Management, LLC), as administrative agent for Lenders (in such capacity, "Administrative Agent") and, for purposes of Section 4 hereof, the Credit Support Parties (as defined in Section 4 hereof) listed on the signature pages hereof, and is made with reference to that certain Credit Agreement dated as of December 24, 2002, as amended by that certain First Amendment to Credit Agreement dated as of April 1, 2003 (as amended, the "Credit Agreement"), by and among Company, Lenders, and Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

**RECITALS**

WHEREAS, Company and Lenders desire to amend the Credit Agreement to (i) amend certain provisions with respect to the eligibility of Accounts and advance rates under the Credit Agreement, and (ii) make certain other amendments as set forth below;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT.

1.1 Amendments to Section 1: Provisions Relating to Defined Terms.

A. Subsection 1.1 of the Credit Agreement is hereby further amended by adding thereto the following definitions, which shall be inserted in proper alphabetical order:

"**Celetron**" means Celetron International, Ltd., a Bermuda corporation.

"**Celetron Accounts Agreements**" means agreements entered into after the Closing Date by Celetron, Administrative Agent, Company, Western Digital Malaysia and Western Digital Corporation governing the payment and disbursement procedures for Accounts owed by Celetron to Company and Accounts owed by Western

Digital to Celetron, in form and substance satisfactory to Administrative Agent in its sole discretion.

"**Second Amendment**" means the Second Amendment to Credit Agreement dated as of April 1, 2003, by and among Company, the Lenders named therein, and Administrative Agent, which amends this Agreement.

"**Second Amendment Effective Date**" has the meaning assigned thereto in the Second Amendment.

B. The definition of "Accounts Collateral Value" in subsection 1.1 of the Credit Agreement is hereby amended by adding the following sentences at the end thereof:

"To the extent any advance rate specified on Schedule 1.1 annexed hereto is premised on the availability of a guaranty, such guaranty shall be satisfactory in form and substance to Administrative Agent. To the extent any advance rate specified on Schedule 1.1 annexed hereto is premised on the availability of a letter of credit, such letter of credit shall be an irrevocable letter of credit satisfactory to Administrative Agent as to form, substance, and issuer or domestic confirming bank. To the extent any advance rate specified on Schedule 1.1 annexed hereto is premised on the availability of credit insurance, such credit insurance shall be in form, substance, and amount satisfactory to Administrative Agent and shall be issued by Euler American Credit Indemnity or another insurer satisfactory to Administrative Agent"

C. The definition of "Eligible Accounts" in subsection 1.1 of the Credit Agreement is hereby amended by deleting subclause (y) of clause (h) thereof in its entirety and substituting the following therefor:

"(y) the Account is covered by credit insurance in form, substance, and amount, and issued by Euler American Credit Indemnity or such other insurer, satisfactory to Administrative Agent;"

D. The definition of "Eligible Accounts" in subsection 1.1 of the Credit Agreement is hereby further amended by adding the following sentence to the end thereof:

"Notwithstanding anything to the contrary contained in this Agreement, Accounts owed to the Company by Kaifa and/or Celetron shall not constitute Eligible Accounts unless and until such time as (x) the Account is supported by an irrevocable letter of credit satisfactory to Administrative Agent (as to form, substance and issuer or domestic confirming bank) that has been delivered to Administrative Agent and is directly drawable by Administrative Agent, (y) the Account is supported by credit insurance in form, substance, and amount satisfactory to Administrative Agent, which is issued by EULER American Credit Indemnity or another insurer satisfactory to Administrative Agent, or (z) the Kaifa Accounts Agreements or Celetron Accounts Agreements, as the case may be, in form and substance satisfactory to Administrative Agent are fully effective."

1.2 Amendment to Section 7: Company' s Negative Covenants

A. Notwithstanding the limitation of subsections 7.1, 7.2A or 7.4 of the Credit Agreement, Company shall be permitted to make a deposit in an amount not to exceed $155,200 with Imperial Premium Finance, Inc. and to incur the indebtedness for premium to Imperial Premium Finance, Inc. in an amount not to exceed $265,040, each in connection with the Premium Finance Agreement and Disclosure Statement and Security Agreement for Policy No. 375,810-3; provided that the terms and conditions of such indebtedness and Imperial Premium Finance, Inc.' s cancellation rights thereunder shall be acceptable to the Lenders in their sole discretion; provided, further, that concurrently therewith, EULER American Credit Indemnity shall have issued to Company and Lenders a certificate of insurance, together with the endorsements requested by Lenders or such other form of evidence satisfactory to the Lenders that EULER American Credit Indemnity shall issue said endorsements and that in all circumstances the original policy, together with endorsements shall be issued to Company and Lenders within five (5) Business Days thereof.

B. Notwithstanding the limitation of subsection 7.7B of the Credit Agreement, Company shall be permitted to sell anticipated time drafts for the fair market value thereof, so long as both before and after giving effect to the disposition, the Company shall be in compliance with the limitations set forth in the Compliance Certificate as to its borrowing base.

1.3 Amendment to Section 10.2.

A. Subsection 10.2(v) of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

> "(v) all the actual and reasonable expenses (including the reasonable fees, expenses and disbursements of any auditors, accountants or appraisers and any environmental or other consultants, advisors and agents employed or retained by Administrative Agent or its counsel) to administer and monitor the collateral and the disbursement requests and Notices of Borrowing by Company, of obtaining and reviewing any appraisals provided for under subsection 4.1 or 6.9B and any environmental audits or reports provided for under subsection 4.1J or 6.9A;"

1.4 Substitution of Schedules.

A. Schedule 1.1 to the Credit Agreement is hereby amended by deleting said Schedule 1.1 in its entirety and substituting in place thereof a new Schedule 1.1 in the form of Annex A annexed hereto.

1.5 Amendments to Exhibits.

A. Exhibit VII to the Credit Agreement (Collateral Value Certificate) is hereby amended by deleting it in its entirety and substituting therefor a new Exhibit VII in the form of Annex B annexed hereto.

Section 2. Conditions To Effectiveness. Section 1 this Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of

satisfaction of such conditions being referred to herein as the "Second Amendment Effective Date"):

A. On or before the Second Amendment Effective Date, Company shall deliver or cause to be delivered to Lenders (or to Administrative Agent for Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel) the following, each, unless otherwise noted, dated the Second Amendment Effective Date:

1. Certified copies of its Certificate or Articles of Incorporation, dated a recent date prior to the Second Amendment Effective Date;

2. Copies of its Bylaws, certified as of the Second Amendment Effective Date by its corporate secretary or an assistant secretary;

3. Resolutions of its Board of Directors approving and authorizing the execution, delivery, and performance of this Amendment and the other transactions contemplated hereby, certified as of the Second Amendment Effective Date by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment.

4. Signature and incumbency certificates of its officers executing this Amendment; and

5. Executed copies of this Amendment.

B. On or before the Second Amendment Effective Date, all Lenders, shall have executed this Amendment and Administrative Agent shall have received written or telephonic notification of such execution and authorization of delivery thereof.

C. The Second Amendment Effective Date shall have occurred before April 4, 2003.

D. On or before the Second Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by Administrative Agent, acting on behalf of Lenders, and its counsel shall be satisfactory in form and substance to Administrative Agent and such counsel, and Administrative Agent and such counsel shall have received all such counterpart originals or certified copies of such documents as Administrative Agent may reasonably request.

E. On or before the Second Amendment Effective Date, the Company, Administrative Agent and Wells Fargo Bank shall have entered into an amendment of the Wells Escrow Agreement in the form of Annex C annexed hereto to provide for the substitution of the amended Collateral Value Certificate attached hereto.

Section 3. Company' s Representations And Warranties. In order to induce Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein,

Company represents and warrants to each Lender that the following statements are true, correct and complete:

A. Corporate Power and Authority. Company has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Credit Agreement as amended by this Amendment (the "Amended Agreement"). Each other Loan Party has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, this Amendment.

B. Authorization of Agreements. The execution and delivery of this Amendment, the performance of this Amendment and the Amended Agreement have been duly authorized by all necessary corporate action on the part of Company. The execution, delivery and performance of this Amendment have been duly authorized by all necessary corporate action on the part of each other Loan Party.

C. No Conflict. The execution, delivery and performance by each Loan Party of this Amendment, the performance by Company of the Amended Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to any Loan Party or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of Loan Party or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on any Loan Party or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of, any Loan Party or any of its Subsidiaries, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of any Loan Party or any of its Subsidiaries (other than Liens created under any of the Loan Documents in favor of the Administrative Agent on behalf of Lenders), or (iv) require any approval of stockholders or any approval or consent of any Person under any Contractual Obligation of any Loan Party or any of its Subsidiaries, except for such approvals or consents which will be obtained on or before the Second Amendment Effective Date and disclosed in writing to Lenders.

D. Governmental Consents. The execution, delivery and performance by each Loan Party of this Amendment, the performance by Company of the Amended Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body other than those previously obtained.

E. Binding Obligation. This Amendment and the Amended Agreement have been duly executed and delivered by Company and are the legally valid and binding obligations of Company, enforceable against Company in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability. This Amendment has been duly executed and delivered by each Loan Party and is the legally valid and binding obligations of such Loan Party, enforceable against such Loan Party in accordance with its terms, except as may be limited by bankruptcy,

insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. Incorporation of Representations and Warranties From Credit Agreement. The representations and warranties contained in Section 4 of the Credit Agreement are and will be true, correct and complete in all material respects on and as of the Second Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

G. Absence of Default. Except for those Defaults and Events of Default specifically covered in that certain Limited Waiver dated February 10, 2003 among the Company, the Lenders' signature thereto, Administrative Agent and the Credit Support Parties, no event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

Section 4. Acknowledgement And Consent. Company is a party to certain Collateral Documents specified in the Credit Agreement, in each case as amended through the Second Amendment Effective Date, pursuant to which the Company has created Liens in favor of Administrative Agent on certain Collateral to secure the Obligations. The Subsidiary Guarantors are parties to the Subsidiary Guaranty and certain Collateral Documents specified in the Credit Agreement, in each case as amended through the Second Amendment Effective Date, pursuant to which each Subsidiary Guarantor has (i) guarantied the Obligations and (ii) created liens in favor of Administrative Agent on certain Collateral to secure the obligations of each such party under the Subsidiary Guaranty of such party. Company and the Subsidiary Guarantors are collectively referred to herein as "Credit Support Parties" and the Guaranties and Collateral Documents referred to above are collectively referred to herein as the "Credit Support Documents".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendments of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance of all "Obligations," "Guarantied Obligations" and "Secured Obligations," as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including without limitation the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," as the case may be, in respect of the Amended Agreement.

Each Credit Support Party acknowledges and agrees that the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Amended Agreement and the Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the Second Amendment Effective Date to the same

extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

Each Credit Support Party (other than Company) acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 5. Miscellaneous.

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) On and after the Second Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of Administrative Agent or any Lender under, the Credit Agreement or any of the other Loan Documents.

B. Fees and Expenses. Company acknowledges that all costs, fees and expenses as described in subsection 10.2 of the Credit Agreement incurred by Administrative Agent and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of Company.

C. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (INCLUDING WITHOUT LIMITATION SECTION 1646.5 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF ANOTHER LAW.

E. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment, subject to the provisions of Section 3 hereof, shall become effective upon the execution of a counterpart hereof by Company, Requisite Lenders and each of the Subsidiary Guarantors and receipt by Company and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

F. Entire Agreement. This Amendment is the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior oral and written, and all contemporaneous oral, agreements between the parties with respect to the matters contained in this Amendment.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

COMPANY:

READ-RITE CORPORATION

By: /s/ Andrew C. Holcomb
Title: Sr. Vice President Finance and C.F.O.

Notice Address:

44100 Osgood Road
Fremont, California 94539
Attention: Chief Financial Officer
Phone:_____
Fax: _____

ADMINISTRATIVE AGENT:

TENNENBAUM CAPITAL PARTNERS, LLC

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

LENDERS:

SPECIAL VALUE BOND FUND II, LLC

By: SVIM/MSM II, LLC
Its: Managing Member

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

SPECIAL VALUE ABSOLUTE RETURN FUND II, LLC

By: SVIM/MSM II, LLC
Its: Managing Member

By: TENNENBAUM CAPITAL PARTNERS, LLC
Its: Managing Member

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

FUQUA FAMILY LEAD ANNUITY TRUST–2000

By: TENNENBAUM CAPITAL PARTNERS, LLC
Its: Investment Member

By: TENNENBAUM & CO., LLC
Its: Managing Member

By: /s/ Michael E. Tennenbaum
Name: Michael E. Tennenbaum
Title: Managing Member

Notice Address:

c/o Tennenbaum & Co., LLC
11100 Santa Monica Boulevard, Suite 210
Los Angeles, California 90025
Attention: David A. Hollander
Phone: 310-566-1036
Fax: 310-566-1045

CREDIT SUPPORT PARTIES:

READ-RITE HOLDING COMPANY

By: /s/ Andrew C. Holcomb
Title: Director

READ-RITE INTERNATIONAL

By: /s/ Andrew C. Holcomb
Title: Director

Notice Address:

44100 Osgood Road
Fremont, California 94539
Attention: Chief Financial Officer
Phone: _____
Fax:_____

**ANNEX A**

Schedule 1.1

ACCOUNT COLLATERAL–ADVANCE RATES AND SUBLIMITS

| Account Category | Advance Rate |
|---|---|
| Eligible Accounts directly owed by U.S. account debtors (i.e., not disqualified by clause (h) of the definition of Eligible Accounts without regard to the proviso thereto) | 85% of net book value |
| Eligible Accounts owed to Company by Samsung Electronics Co., Ltd., Samsung Asia Pte. Ltd., Maxtor Singapore, Maxtor China or Western Digital Malaysia, with a U.S. parent guaranty and either foreign credit insurance or a letter of credit | 85% of net book value |
| Eligible Accounts owed to Company by Maxtor Singapore, Maxtor China, or Western Digital Malaysia with a U.S. parent guaranty | 80% of net book value |
| Eligible Accounts owed to Company by Samsung Electronics Co., Ltd., Samsung Asia Pte. Ltd., Maxtor Singapore, Maxtor China, Seagate Malaysia or Western Digital Malaysia with foreign credit insurance | The lesser of<br>(x) 80% of net book value and<br>(y) 80% of Net Insured Value.<br>"Net Insured Value" is the amount recoverable in respect of the Eligible Accounts under the credit insurance, net of any co-payments, deductibles and other exclusions from coverage. |
| Other Eligible Accounts owed by Samsung Electronics Co., Ltd., or Samsung Asia Pte. Ltd. to Company | 50% of net book value (subject to a maximum of $3 million net book value at any time) |
| Eligible Accounts owed by Kaifa or Celetron to Company, with either foreign credit insurance or a letter of credit and Western Digital Malaysia U.S. Parent guaranty of obligations owed by Western Digital Malaysia | The lesser of:<br>(x) the sum of the following:<br>(1) 50% of the cash in the blocked deposit account to be established pursuant to the Kaifa or Celetron Accounts Agreements; plus<br>(2) 85% of the Company' s share (a percentage to be determined by Administrative Agent in its commercially reasonable discretion based upon the historical portion of Eligible Accounts which are for the account of Company) of Eligible Accounts payable by Western Digital Malaysia into the Kaifa or Celetron blocked deposit account to be established pursuant to the Kaifa or Celetron Accounts Agreements and<br>(y) 85% of the net book value of the Kaifa or Celetron Accounts |
| Eligible Accounts owed by Kaifa or Celetron to Company, with foreign credit insurance | The lesser of<br>(x) 70% of net book value and |

| | |
|---|---|
| | (y) 70% of the Net Insured Value. |
| Accounts owed by Kaifa or Celetron to Company, with Western Digital Malaysia U.S. parent guaranty of obligations owed by Western Digital Malaysia | The lesser of:<br>(x) the sum of the following:<br>(1) 50% of the cash in the blocked deposit account to be established pursuant to the Kaifa or Celetron Accounts Agreements; plus<br>(2) 60% of the Company' s share (a percentage to be determined by Administrative Agent in its commercially reasonable discretion based upon the historical portion of Eligible Accounts which are for the account of Company of Eligible Accounts payable by Western Digital Malaysia into the blocked deposit account to be established pursuant to the Kaifa or Celetron Accounts Agreements and<br>(y) 60% of the net book value of the Kaifa or Celetron Accounts |
| Eligible Accounts owed by Kaifa or Celetron or Celetron to Company, secured by a commercial letter of credit | 50% of net book value of Eligible Accounts from the period commencing on the date that the goods have been shipped and the Company receives all shipping documents required to draw under the letter of credit to the date that the letter of credit issuer has honored a demand under the letter of credit (subject to a maximum of $3 million net book value at any time); and<br><br>subject to the following proviso, up to 85% (to be determined by Administrative Agent in its commercially reasonable discretion) of the amount of any time drafts issued under the letters of credit that have been irrevocably accepted by Wells Fargo Bank, provided that the amount of time drafts shall no longer qualify as of the date that, and if there shall occur any, factoring or other disposition of said time drafts.<br><br>The advance rates for these Eligible Accounts are subject to the following terms and conditions: All letters of credit will be issued to the Company when Kaifa or Celetron issues a purchase order to the Company. The letters of credit will be confirmed by Wells Fargo Bank and must provide that partial shipments are permitted, and must otherwise be acceptable to the Lenders. The Company and the Lenders will enter into an agreement requiring all proceeds from the letter of credit to be deposited into the Wells Fargo Blocked Account. |

**Exhibit 99.1**

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

I, Alan S. Lowe, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Read-Rite Corporation on Form 10-Q for the fiscal quarter ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Read-Rite Corporation.

By: /s/ Alan S. Lowe
Name: Alan S. Lowe
Title: President & Chief Executive Officer
Date: May 14, 2003

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

I, Andrew C. Holcomb, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Read-Rite Corporation on Form 10-Q for the fiscal quarter ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Read-Rite Corporation.

By: /s/ Andrew C. Holcomb
Name: Andrew C. Holcomb
Title: Senior Vice President & Chief Financial Officer
Date: May 14, 2003