

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2008

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 1-8703



WESTERN DIGITAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

33-0956711
(I.R.S. Employer
Identification No.)

20511 Lake Forest Drive
Lake Forest, California
(Address of principal executive offices)

92630
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of the close of business on October 28, 2008, 221,562,281 shares of common stock, par value \$.01 per share, were outstanding.

WESTERN DIGITAL CORPORATION
INDEX

	<u>PAGE NO.</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets — September 26, 2008 and June 27, 2008</u>	3
<u>Condensed Consolidated Statements of Income — Three Months Ended September 26, 2008 and September 28, 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows — Three Months Ended September 26, 2008 and September 28, 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	26
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 1A. Risk Factors</u>	26
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 6. Exhibits</u>	45
<u>Signatures</u>	47
<u>EX-10.1.5</u>	
<u>EX-10.1.6</u>	
<u>EX-10.1.7</u>	
<u>EX-10.1.8</u>	
<u>EX-10.1.9</u>	
<u>EX-10.1.10</u>	
<u>EX-10.7</u>	
<u>EX-10.8</u>	
<u>EX-10.10.6</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Typically, our fiscal year ends on the Friday nearest to June 30 and consists of 52 weeks. However, approximately every five years, we report a 53-week fiscal year to align our fiscal quarters. The quarters ended September 26, 2008 and September 28, 2007 were 13 weeks. Fiscal year 2008 was comprised of 52 weeks and ended on June 27, 2008. Fiscal year 2009 will be comprised of 53 weeks and will end on July 3, 2009. Fiscal fourth quarter 2009 will consist of 14 weeks. Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters, and references to financial information are on a consolidated basis. As used herein, the terms “we”, “us” and “our” refer to Western Digital Corporation and its subsidiaries.

We are a Delaware corporation that operates as the parent company of our hard drive business, Western Digital Technologies, Inc., which was formed in 1970.

Our principal executive offices are located at 20511 Lake Forest Drive, Lake Forest, California 92630. Our telephone number is (949) 672-7000 and our web site is <http://www.westerndigital.com>. The information on our web site is not incorporated into this Quarterly Report on Form 10-Q.

Western Digital, WD, the WD logo, WD Caviar, WD VelociRaptor, WD Scorpio, WD Elements, My Passport, My Book and GreenPower are trademarks of Western Digital Technologies, Inc. and/or its affiliates. All other trademarks mentioned are the property of their respective owners.

[Table of Contents](#)**PART I. FINANCIAL INFORMATION**
Item 1. FINANCIAL STATEMENTS**WESTERN DIGITAL CORPORATION**
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par values; unaudited)

	Sept. 26, 2008	Jun. 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,213	\$ 1,104
Short-term investments	2	3
Accounts receivable, net	1,082	1,010
Inventories	477	456
Advances to suppliers	27	36
Other current assets	147	122
Total current assets	2,948	2,731
Property and equipment, net	1,674	1,668
Goodwill	116	116
Other intangible assets, net	78	81
Other non-current assets	276	279
Total assets	<u>\$ 5,092</u>	<u>\$ 4,875</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,215	\$ 1,181
Accrued expenses	243	266
Accrued warranty	93	90
Current portion of long-term debt	45	27
Total current liabilities	1,596	1,564
Long-term debt	462	482
Other liabilities	147	133
Total liabilities	2,205	2,179
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized — 5 shares; outstanding — None	—	—
Common stock, \$.01 par value; authorized — 450 shares; outstanding — 225 shares	2	2
Additional paid-in capital	920	906
Accumulated comprehensive loss	(14)	(12)
Retained earnings	2,033	1,822
Treasury stock — common shares at cost; 2 and 1 shares, respectively	(54)	(22)
Total shareholders' equity	2,887	2,696
Total liabilities and shareholders' equity	<u>\$ 5,092</u>	<u>\$ 4,875</u>

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts; unaudited)

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Revenue, net	\$ 2,109	\$ 1,766
Cost of revenue	1,685	1,443
Gross margin	<u>424</u>	<u>323</u>
Operating expenses:		
Research and development	133	91
Selling, general and administrative	57	48
Acquired in-process research and development	—	49
Total operating expenses	<u>190</u>	<u>188</u>
Operating income	234	135
Non-operating income (expense):		
Interest income	4	9
Interest and other expense	(8)	(6)
Total non-operating income (expense)	<u>(4)</u>	<u>3</u>
Income before income taxes	230	138
Income tax expense	19	69
Net income	<u>\$ 211</u>	<u>\$ 69</u>
Income per common share:		
Basic	<u>\$ 0.95</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.93</u>	<u>\$ 0.31</u>
Weighted average shares outstanding:		
Basic	<u>222</u>	<u>219</u>
Diluted	<u>226</u>	<u>224</u>

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

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions; unaudited)

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Cash flows from operating activities		
Net income	\$ 211	\$ 69
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	117	78
Acquired in-process research and development	—	49
Stock-based compensation	10	8
Deferred income taxes	—	60
Loss on investments	3	—
Changes in:		
Accounts receivable	(72)	(173)
Inventories	(21)	3
Accounts payable	76	72
Accrued expenses	7	12
Advances to suppliers	9	30
Other assets and liabilities	(39)	11
Net cash provided by operating activities	<u>301</u>	<u>219</u>
Cash flows from investing activities		
Acquisitions, net of cash acquired	—	(911)
Purchases of property and equipment	(162)	(163)
Purchases of investments	—	(28)
Sales and maturities of investments	1	93
Net cash used in investing activities	<u>(161)</u>	<u>(1,009)</u>
Cash flows from financing activities		
Issuance of common stock under employee plans	1	10
Taxes on issuance of common stock under employee plans	(2)	—
Repurchases of common stock	(36)	(16)
Tax benefit from employee stock plans	8	—
Proceeds from debt	—	750
Repayment of debt	(2)	(3)
Net cash (used in) provided by financing activities	<u>(31)</u>	<u>741</u>
Net increase (decrease) in cash and cash equivalents	109	(49)
Cash and cash equivalents, beginning of period	1,104	700
Cash and cash equivalents, end of period	<u>\$ 1,213</u>	<u>\$ 651</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 2	\$ 2
Cash paid for interest	\$ 5	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Acquired convertible debentures	\$ —	\$ 248

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

WESTERN DIGITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The accounting policies followed by Western Digital Corporation (the “Company”) are set forth in Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended June 27, 2008. In the opinion of management, all adjustments necessary to fairly state the unaudited condensed consolidated financial statements have been made. All such adjustments are of a normal, recurring nature. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 27, 2008. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

On September 5, 2007, the Company completed its acquisition (the “Acquisition”) of Komag, Incorporated (“Komag”). The Acquisition is further described in the Company’s Annual Report on Form 10-K for the year ended June 27, 2008. In connection with the Acquisition, Komag became an indirect wholly-owned subsidiary of the Company and changed its name to WD Media, Inc. (“WD Media”). WD Media’s results of operations since the date of the Acquisition are included in the condensed consolidated financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including WD Media. All significant inter-company accounts and transactions have been eliminated in consolidation.

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

2. Supplemental Financial Statement Data*Inventories*

	<u>Sept. 26, 2008</u>	<u>Jun. 27, 2008</u>
	(in millions)	
Inventories:		
Raw materials and component parts	\$ 129	\$ 144
Work-in-process	168	145
Finished goods	180	167
Total inventories	<u>\$ 477</u>	<u>\$ 456</u>

Warranty

The Company records an accrual for estimated warranty costs when revenue is recognized. The Company generally warrants its products for a period of one to five years. The warranty provision considers estimated product failure rates and trends, estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. A statistical warranty tracking model is used to help with estimates and assists in exercising judgment in determining the underlying estimates. The statistical tracking model captures specific detail on hard drive reliability, such as factory test data, historical field return rates, and costs to repair by product type. If actual product return trends, costs to repair returned products or costs of customer compensatory

Table of Contents

claims differ significantly from estimates, future results of operations could be materially affected. Management's judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited field experience with those products upon which to base warranty estimates. Management reviews the warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that impact current period gross margin and income. Such changes are generally a result of differences between forecasted and actual return rate experience and costs to repair. Changes in the warranty accrual for the three months ended September 26, 2008 and September 28, 2007 were as follows (in millions):

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Warranty accrual, beginning of period	\$ 114	\$ 90
Charges to operations	31	25
Utilization	(22)	(16)
Changes in estimate related to pre-existing warranties	(4)	(2)
Warranty accrual, end of period	<u>\$ 119</u>	<u>\$ 97</u>

Accrued warranty also includes amounts classified in non-current liabilities of \$26 million at September 26, 2008, \$24 million at June 27, 2008, and \$21 million at September 28, 2007.

3. Income per Common Share

The Company computes basic income per common share using net income and the weighted average number of common shares outstanding during the period. Diluted income per common share is computed using net income and the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include certain dilutive outstanding employee stock options, rights to purchase shares of common stock under our employee stock purchase plan and restricted stock and stock unit awards.

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

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Net income	<u>\$ 211</u>	<u>\$ 69</u>
Weighted average common shares outstanding:		
Basic	222	219
Employee stock options and other	4	5
Diluted	<u>226</u>	<u>224</u>
Income per common share:		
Basic	<u>\$ 0.95</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.93</u>	<u>\$ 0.31</u>
Anti-dilutive common share equivalents excluded*	<u>2</u>	<u>2</u>

* For purposes of computing diluted income per common share, common share equivalents with an exercise price that exceeded the average fair market value of common stock for the period are considered anti-dilutive and have been excluded from the calculation.

4. Debt

In February 2008, Western Digital Technologies, Inc. (“WDTI”), a wholly-owned subsidiary of the Company, entered into a five-year Credit Agreement (“Credit Facility”) that provides for a \$750 million unsecured loan consisting of a \$500 million term loan facility and a \$250 million revolving credit facility. The revolving credit facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline. In addition, WDTI may elect to expand the Credit Facility by up to \$250 million if existing or new lenders provide additional term or revolving commitments. The \$500 million term loan had a variable interest rate of 3.75% as of September 26, 2008 and requires sixteen quarterly principal payments beginning in June 2009 of approximately \$18 million, \$25 million, \$31 million and \$50 million per quarter for each four quarter increment. As of September 26, 2008, WDTI had \$250 million available for future borrowings on the revolving credit facility and was in compliance with all covenants.

5. Stock-Based Compensation

Stock-Based Compensation Expense

During the three months ended September 26, 2008, the Company charged to expense \$5 million for stock-based compensation related to options issued under stock option and the Employee Stock Purchase Plan (“ESPP”) plans, compared to \$4 million in the three months ended September 28, 2007. At September 26, 2008, total compensation cost related to unvested stock options and ESPP rights issued to employees but not yet recognized was \$45 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.7 years.

Fair Value Disclosures

The fair value of stock options granted during the three months ended September 26, 2008 was estimated using a binomial option pricing model. The binomial model requires the input of highly subjective assumptions including the expected stock price volatility, the expected price multiple at which employees are likely to exercise stock options and the expected employee termination rate. The Company uses historical data to estimate the rate at which employee options are exercised, employee terminations, and expected stock price volatility within the binomial model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of stock options granted during the three months ended September 26, 2008 was estimated using the following weighted average assumptions:

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Suboptimal exercise factor	1.73	1.57
Range of risk-free interest rates	1.81% to 3.41%	3.97% to 4.59%
Range of expected volatility	0.43 to 0.58	0.33 to 0.75
Weighted average expected volatility	0.48	0.47
Post-vesting termination rate	4.41%	5.35%
Dividend yield	—	—
Fair value	\$9.90	\$8.78

The weighted average expected term of the Company’s stock options for the three months ended September 26, 2008 was 5.56 years compared to 5.27 years for the three months ended September 28, 2007.

The fair value of ESPP rights issued is estimated at the date of issue using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes-Merton option

[Table of Contents](#)

pricing model requires the input of highly subjective assumptions such as the expected stock price volatility and the expected period until options are exercised. Shares granted under the current ESPP provisions are issued on either June 1 or December 1. ESPP activity was immaterial to the condensed consolidated financial statements for the three months ended September 26, 2008 and three months ended September 27, 2008.

Stock Options

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

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at June 27, 2008	8.0	\$ 14.92		
Granted	1.7	23.82		
Exercised	(0.1)	9.34		
Canceled or expired	—	—		
Options outstanding at September 26, 2008	<u>9.6</u>	<u>\$ 16.47</u>	<u>5.7</u>	<u>\$ 61</u>
Exercisable at September 26, 2008	<u>4.7</u>	<u>\$ 10.35</u>	<u>4.7</u>	<u>\$ 55</u>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock on September 26, 2008 for those awards that have an exercise price currently below the quoted price. As of September 26, 2008, the Company had options outstanding to purchase an aggregate of 5.7 million shares with an exercise price below the quoted price of the Company's stock resulting in an aggregate intrinsic value of \$61 million. During the three months ended September 26, 2008 and September 28, 2007, the aggregate intrinsic value of options exercised under the Company's stock option plans was \$1 million and \$14 million, respectively, determined as of the date of exercise.

Deferred Stock Compensation

The Company granted approximately 0.6 million restricted stock units during the three months ended September 26, 2008, which are payable in an equal number of shares of the Company's common stock at the time of vesting of the units. The aggregate market value of these awards was \$15 million. As of September 26, 2008, the aggregate unamortized fair value of all unvested restricted stock and restricted stock unit awards was \$51 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.4 years. For the three months ended September 26, 2008, the Company charged to expense approximately \$5 million related to restricted stock awards that vested during the period, compared to \$4 million in the comparative prior year period.

6. Legal Proceedings

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

On June 20, 2008, Convolv, Inc. ("Convolv") filed a complaint against the Company and two other companies for patent infringement in the Eastern District of Texas alleging infringement of U.S. Patent Nos. 6,314,473 and 4,916,635 (the "Asserted Patents") and is seeking unspecified monetary damages and injunctive relief. One of these patents allegedly relates to a method to reduce vibration and noise in physical systems, and the other patent allegedly relates to interface technology to select between certain modes of a disk drive's operations relating to speed and

[Table of Contents](#)

noise. Reexaminations of the Asserted Patents are currently pending in the United States Patent Office in connection with a lawsuit involving Convolve and other parties. The Company intends to defend itself vigorously in this matter.

7. Income Taxes

The Company's income tax provision for the three months ended September 26, 2008 was \$19 million. Differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia and Thailand that expire at various dates through 2022 and the current year generation of income tax credits.

In the quarter ended September 26, 2008, the Company recognized a \$6 million increase in the liability for unrecognized tax benefits. As of September 26, 2008, the Company had approximately \$113 million of unrecognized tax benefits. Interest and penalties recognized on such amounts were not material.

The IRS is scheduled to commence an examination of the fiscal years ended 2006 and 2007 for the Company and calendar years 2005 and 2006 for Komag. Additionally, the Company's French subsidiary is under examination by the local tax authorities for fiscal years 2003 through 2005.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty and could require the Company to pay amounts to the IRS or local tax authorities in order to resolve examination of the Company's uncertain tax positions. As a result, the Company's current estimate of the total amounts of unrecognized tax benefits could increase or decrease for all open tax years. As of September 26, 2008, it was not possible to estimate the amount of change, if any, in the unrecognized tax benefits that is reasonably possible within the next twelve months. Any significant change in the amount of the Company's unrecognized tax benefits would most likely result from additional information or settlements relating to the Company's tax examination of uncertain tax positions.

8. Fair Value Measurements

In the first quarter of 2009, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") for financial assets and liabilities that are re-measured and reported at fair value at each reporting period. SFAS 157 requires that fair value measurements be classified and disclosed in one of the following three categories:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Inputs that are unobservable for the asset or liability and that are significant to the fair value of the assets or liabilities.

The following table presents information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of September 26, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such value (in millions):

[Table of Contents](#)

	Fair Value Measurements at Reporting Date using			
	Sept. 26, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	\$689	\$689	\$—	\$—
Short-term investments	2	—	—	2
Auction-rate securities	25	—	—	25
Liabilities				
Foreign exchange contracts	\$ 20	\$ —	\$20	\$—

The Company's money market funds are classified within Level 1 as they are valued based on quoted market prices. Short-term investments and auction-rate securities are classified within Level 3 of the fair value hierarchy. Foreign currency hedges are classified within Level 2. Auction-rate securities and short-term investments are valued using broker quotations. Foreign currency hedges are valued based on the present value of future cash flows using market-based observable inputs, including forward rates and credit default swap rates.

Short-Term Investments

The Company's short-term investments are fixed income securities and are recorded within current assets in the consolidated balance sheet.

Auction-Rate Securities

The Company's auction-rate securities are primarily backed by insurance products and are expected to be held until secondary markets become available. As a result, they are classified as long-term investments. These investments are currently accounted for as available-for-sale securities and recorded within other non-current assets in the consolidated balance sheet.

Foreign Exchange Contracts

Although the majority of the Company's transactions are in U.S. dollars, some transactions are based in various foreign currencies. The Company purchases short-term, foreign exchange contracts to hedge the impact of foreign currency exchange fluctuations on certain underlying assets, liabilities, and commitments for operating expenses and product costs denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on the Company's results of operations. The contract maturity dates do not exceed 12 months. The Company does not purchase short-term forward exchange contracts for trading purposes. Currently, the Company focuses on hedging its foreign currency risk related to the Thai Baht, Malaysian Ringgit, Euro and the British Pound Sterling. Malaysian Ringgit contracts are designated as cash flow hedges. Euro and British Pound Sterling contracts are designated as fair value hedges. Thai Baht contracts are designated as both cash flow and fair value hedges.

The following table presents the changes in Level 3 instruments measured on a recurring basis for the three months ended September 26, 2008. This balance consists of fixed income and auction-rate securities that are classified as available-for-sale with temporary changes in fair value recorded to equity.

	Jun. 27, 2008	Redemptions	Other-than-temporary impairment recognized in earnings	Sept. 26, 2008
Short-term investments	\$ 3	\$ (1)	\$ —	\$ 2
Auction-rate securities	28	—	(3)	25
Total	\$ 31	\$ (1)	\$ (3)	\$ 27

9. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued SFAS 157, which establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurement. In February 2008, FASB issued FASB Staff Position 157-2 (“FSP 157-2”) which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those years, which for the Company is the first quarter of fiscal 2010. The partial adoption of SFAS 157 for financial assets and financial liabilities in the Company’s first quarter of fiscal 2009 did not have a material impact on its consolidated financial statements. See Note 8. The Company is currently evaluating the impact the adoption of SFAS 157 will have on the non-financial assets and non-financial liabilities in its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company chose not to elect the fair value option for eligible items, and accordingly, the adoption of SFAS 159 in its first quarter of fiscal 2009 had no impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008, which for the Company is the first quarter of fiscal 2010. The Company is currently evaluating the impact the adoption of SFAS 141(R) will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 updates guidance regarding disclosure requirements for derivative instruments and hedging activities. It responds to constituents’ concerns that FASB Statement No. 133 does not provide adequate information about how derivative and hedging activities affect an entity’s financial position, financial performance, and cash flows. The disclosure of fair values of derivative instruments and their gains and losses in a tabular format, as required by SFAS 161, should provide a more complete picture of the location in an entity’s financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for the Company is the third quarter of fiscal 2009. The Company is currently evaluating the impact the adoption of SFAS 161 will have on its consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 “Goodwill and Other Intangible Assets”. FSP FAS 142-3 is effective for fiscal years beginning on or after December 15, 2008, which for the Company is the first quarter of fiscal year 2010. The Company is currently evaluating the impact the adoption of FSP FAS 142-3 will have on its consolidated financial statements.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 27, 2008.

Unless otherwise indicated, references herein to specific years and quarters are to our fiscal years and fiscal quarters. As used herein, the terms "we," "us" and "our" refer to Western Digital Corporation and its subsidiaries.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecasts," and the like, or the use of future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning:

- *growth in demand for hard drives in the various markets and factors contributing to such growth;*
- *our plans to continue to develop new products and expand into new storage markets and into emerging economic markets;*
- *emergence of new storage markets for hard drives;*
- *expectations regarding our financial results for the second quarter and traditional seasonal demand and pricing trends;*
- *our share repurchase plans;*
- *our stock price volatility;*
- *expectations regarding our capital expenditure plans and our depreciation and amortization expense in fiscal 2009; and*
- *beliefs regarding the sufficiency of our cash, cash equivalents and short-term investments to meet our working capital needs.*

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in Part II, Item 1A of this Quarterly Report on Form 10-Q, and any of those made in our other reports filed with the SEC. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We do not intend, and undertake no obligation, to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Our Company

We design, develop, manufacture and sell hard drives. A hard drive is a device that uses one or more rotating magnetic disks (“media”) to store and allow fast access to data. Hard drives are key components of computers, including desktop and notebook computers (“PCs”), data storage subsystems and many consumer electronics (“CE”) devices.

We sell our products worldwide to original equipment manufacturers (“OEMs”) and original design manufacturers (“ODMs”) for use in computer systems, subsystems or CE devices, and to distributors, resellers and retailers. Our hard drives are used in desktop computers, notebook computers, and enterprise applications such as servers, workstations, network attached storage, storage area networks and video surveillance equipment. Additionally, our hard drives are used in CE applications such as digital video recorders (“DVRs”), and satellite and cable set-top boxes (“STBs”). We also sell our hard drives as stand-alone storage products and integrate them into external casings, embedding application software and presenting them as WD®-branded external storage appliances for purposes such as personal data backup and portable or expanded storage of digital music, photographs, video, and other digital data.

Hard drives provide non-volatile data storage, which means that the data remains present when power is no longer applied to the device. Our hard drives currently include 3.5-inch and 2.5-inch form factor drives, having capacities ranging from 40 gigabytes (“GB”) to 1 terabyte (“TB”), nominal rotation speeds of 5,400, 7,200 and 10,000 revolutions per minute (“RPM”), and offer interfaces including both Enhanced Integrated Drive Electronics (“EIDE”) and Serial Advanced Technology Attachment (“SATA”). We also embed our hard drives into WD®-branded external storage appliances that utilize interfaces such as USB 2.0, external SATA, FireWire™ and Ethernet network connections. In addition, we offer a family of hard drives specifically designed to consume substantially less power than standard drives, utilizing our Green Power™ technology.

We manufacture hard drives and head stack assemblies (“HSAs”) in Malaysia and Thailand. We also design and manufacture most of our required magnetic heads in California and head gimbal assemblies (“HGAs”) in Thailand, and we design in California and manufacture in Malaysia most of our required media and substrates. For geographical financial data, see Part II, Item 8, Note 6 in the Notes to Consolidated Financial Statements included in our 2008 Annual Report on Form 10-K.

On September 5, 2007, we completed our acquisition (the “Acquisition”) of Komag, Incorporated (“Komag”) through a cash tender offer by State M Corporation (“State M”), our indirect wholly-owned subsidiary, for all outstanding shares of Komag’s common stock, which was followed by a merger of State M and Komag (the “Merger”) whereby Komag became an indirect wholly-owned subsidiary and changed its name to WD Media, Inc. The Acquisition has strengthened our production efficiencies and improved our access to and control of technology and competitive position in the worldwide hard drive industry, while enhancing our hard drive manufacturing process by integrating media. The aggregate purchase price for Komag was approximately \$1 billion, consisting of cash paid for outstanding shares, transaction fees, severance and other employee-related equity payments.

Technology and Product Development

Hard drives record, store and retrieve digital data. Performance attributes of hard drives, such as their ability to access and transmit data and storage capacity, are currently better than removable or floppy disks, optical hard drives and tapes, and they are more cost effective than semiconductor technology.

All of our hard drive products employ similar technology. The main components of the hard drive are a Head-Disk-Assembly (“HDA”) and a Printed Circuit Board Assembly (“PCBA”). The HDA includes heads, media

[Table of Contents](#)

(“disks”), head positioning mechanism (“actuator”) and spindle motor. A rigid base and top cover contain these components in a contamination-controlled environment. The PCBA includes both standard and custom integrated circuits, an interface connector to the host computer and a power connector.

Industry standard interfaces allow the hard drive to communicate with the computer. Currently, the primary interfaces for PCs are EIDE (Parallel Advanced Technology Attachment, or “PATA”) and SATA, and the primary interfaces for enterprise systems are SCSI, SATA, SAS and FCAL. As computer performance continues to improve, the hard drive will need to deliver information faster. We believe this will continue to drive the PC industry transition to higher speed interfaces, such as SATA and SAS, to facilitate the higher data transfer rates. We currently offer the SATA interface on our WD Caviar®, WD Scorpio® WD® RE, WD VelociRaptor™ and WD® AV hard drive families; and EIDE (PATA) on WD Caviar®, WD Scorpio® and WD®AV families.

The number of disks and each disk’s areal density, which is a measure of the amount of data that can be stored on the recording surface of the disk, determines storage capacity of the hard drive. The higher the areal density, the more information can be stored on a single platter. Achieving a given drive capacity requires fewer disks and heads as the areal density increases, potentially reducing product costs over time through reduced component requirements. In June 2008, we began shipping our WD Caviar® 3.5-inch family of drives at 333 GB per platter areal density. In September 2008, we began shipping our WD Scorpio® Blue™ 2.5-inch 500 GB drives at 250 GB per platter areal density.

First Quarter Overview

The following table sets forth, for the periods indicated, selected summary information from our condensed consolidated statements of income and the related percentage of revenue (dollars in millions):

	THREE MONTHS ENDED			
	Sept. 26, 2008		Sept. 28, 2007	
Net revenue	\$2,109	100.0%	\$1,766	100.0%
Gross margin	424	20.1	323	18.3
Total operating expenses	190	9.0	188	10.6
Operating income	234	11.1	135	7.6
Net income	211	10.0	69	3.9

The following is a summary of our financial performance for the first quarter of 2009:

- Consolidated net revenue totaled \$2.1 billion.
- Sixty-one percent of our hard drive revenue was derived from non-desktop markets, including notebook computers, CE products, enterprise applications and WD branded product sales, as compared to 53% in the prior-year period.
- Hard drive unit shipments increased by 34% over the prior-year period to 39.4 million.
- Gross margin increased to 20.1%, compared to 18.3% for the prior-year period.
- Operating income was \$234 million, an increase of 73% over the prior-year period.
- We generated \$301 million in cash flow from operations in the first quarter of 2009, and we finished the quarter with \$1.2 billion in cash and cash equivalents.

[Table of Contents](#)

For the December quarter, we expect revenue to remain consistent with the September quarter and our gross margin percentage to decrease from the September quarter as a result of the uncertain macroeconomic environment, the tightening of credit worldwide, degradation of average selling prices and the position of most hard disk drive competitors to provide mainstream capacities across the 2.5-inch and 3.5-inch product lines. Operating expenses are expected to remain consistent with the September quarter as we continue to invest in new product and technology.

Results of Operations

In accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), operating results for Komag prior to the date of the Acquisition (September 5, 2007) are not included in our operating results and are therefore not discussed. Accordingly, revenues and expenses for the three months ended September 26, 2008 reflect the addition of results from our media operations while results for the three months ended September 28, 2007 do not include operating results for Komag prior to the date of the Acquisition. This affects our discussion of changes in our revenues and expenses comparing these periods. In connection with the Acquisition, we incurred charges for in-process research and development and transition costs, which impacted our earnings in 2008.

Net Revenue

(in millions, except percentages and ASP)	THREE MONTHS ENDED		Percentage Change
	Sept. 26, 2008	Sept. 28, 2007	
Net revenue	\$2,109	\$1,766	19%
Unit shipments*	39.4	29.4	34
ASP (per unit)*	\$ 53	\$ 59	(10)

Revenues by Geography (%)*

Americas	23%	34%
Europe, Middle East and Africa	29	33
Asia	48	33

Revenues by Channel (%)*

OEM	56%	50%
Distributors	26	31
Branded products	18	19

Revenues by Product (%)*

Non-desktop sources	61%	53%
Desktop computers	39	47

* Based on sales of hard drives only

For the quarter ended September 26, 2008, net revenue was \$2.1 billion, an increase of 19% over the quarter ended September 28, 2007. Total hard drive shipments increased to 39.4 million for the first quarter of 2009 as compared to 29.4 million for the first quarter of 2008. These unit and revenue increases resulted from higher overall demand for hard drives with higher capacities and our continuing diversification into non-desktop markets. For example, we shipped 14.6 million 2.5-inch drives in the first quarter of 2009 as compared to 5.9 million units in the first quarter of 2008. We shipped 3.9 million units to the DVR market in the first quarter of 2009 as compared to 3.7 million units in the first quarter of 2008. In addition, revenue from branded products increased to \$383 million for the three months ended September 26, 2008 as compared to \$321 million for the prior year's comparable period. This increase is attributable to additional branded units shipped as a result of the growing worldwide acceptance of our My Book® and WD Passport® external digital storage appliances. Revenue from all non-desktop PC markets

[Table of Contents](#)

comprised 61% of hard drive revenue for the quarter ended September 26, 2008 as compared to 53% for the prior-year period.

Average hard drive selling prices (“ASPs”) for the first quarter of 2009 were approximately \$6 lower than the prior-year quarter due to the ready availability of comparable products from most competitors across the entire product range and the continuing competitive pricing environment.

Changes in revenue by geography and by channel generally reflect normal fluctuations in market demand and competitive dynamics, as well as an increase in mobile drives sold to Asia. For the three months ended September 26, 2008, we had one customer, Dell Inc., that accounted for 10%, or more, of our revenue.

Gross Margin

(in millions, except percentages)	THREE MONTHS ENDED		Percentage Change
	Sept. 26, 2008	Sept. 28, 2007	
Net revenue	\$2,109	\$1,766	19%
Gross margin	424	323	31
Gross margin %	20.1%	18.3%	

For the three months ended September 26, 2008, gross margin as a percentage of sales increased 180 basis points from the prior-year quarter. This result reflects an improved mix of revenues by market category and improved product mix. Our manufacturing throughput and costs also improved through operational efficiencies, higher utilization and a higher mix of products based on newer, more cost-effective technologies and the combination of media operations.

Operating Expenses

(in millions, except percentages)	THREE MONTHS ENDED		Percentage Change
	Sept. 26, 2008	Sept. 28, 2007	
R&D expense	\$ 133	\$ 91	46%
SG&A expense	57	48	19
Acquired in-process research and development	—	49	—
Total operating expenses	190	188	1

Research and development (“R&D”) expense was \$133 million for the three months ended September 26, 2008, an increase of \$42 million over the prior-year period. This increase includes \$13 million relating to the integration of media operations with the remaining primarily related to the addition of in-house hard-disk controller and software development activities as well as expansion of our new product and technology capabilities.

Selling, general and administrative (“SG&A”) expense was \$57 million for the three months ended September 26, 2008, an increase of \$9 million over the prior-year period. This increase was primarily due to the expansion of our sales and marketing infrastructure in support of our increased product line and customer base.

During the three months ended September 28, 2007, we recorded a \$49 million charge to operating expense related to an in-process research and development project acquired from Komag involving technology for higher recording densities on advanced perpendicular recording media. As these advanced products were not ready for

[Table of Contents](#)

commercial production and had no alternative future use, the fair value of the development effort did not qualify for capitalization and was immediately expensed.

Non-Operating Income (Expense)

Non-operating income (expense), decreased \$7 million for the three months ended September 26, 2008 as compared to the prior-year period primarily due to a decrease in the rates of return on our investments and recognized losses on investments of \$3 million.

Income Tax Provision

The Company's income tax provision for the three months ended September 26, 2008 was \$19 million as compared to \$69 million for the three months ended September 28, 2007. The decrease primarily consists of a reduction in the charges for taxes related to the license of intellectual property to subsidiaries. Differences between the effective tax rate and the U.S. Federal statutory rate are primarily due to tax holidays in Malaysia and Thailand that expire at various dates through 2022 and the current year generation of income tax credits.

Liquidity and Capital Resources

We ended the first quarter of fiscal 2009 with total cash and cash equivalents of \$1.2 billion. The following table summarizes our statements of cash flows for the three months ended September 26, 2008 and September 28, 2007 (in millions):

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Net cash flow provided by (used in):		
Operating activities	\$ 301	\$ 219
Investing activities	(161)	(1,009)
Financing activities	(31)	741
Net increase (decrease) in cash and cash equivalents	<u>\$ 109</u>	<u>\$ (49)</u>

Operating Activities

Net cash provided by operating activities during the three months ended September 26, 2008 was \$301 million as compared to \$219 million during the three months ended September 28, 2007. Cash flow from operations consists of net income, adjusted for non-cash charges, plus or minus working capital changes. This represents our principal source of cash. Net cash used to fund working capital changes was \$40 million for the three months ended September 26, 2008 as compared to \$45 million for the prior-year period.

Our working capital requirements primarily depend on the effective management of our cash conversion cycle, which measures how quickly we can convert our products into cash through sales. The cash conversion cycles for the three months ended September 26, 2008 and September 28, 2007 were as follows:

	THREE MONTHS ENDED	
	Sept. 26, 2008	Sept. 28, 2007
Days sales outstanding	47	51
Days in inventory	26	29
Days payables outstanding	(66)	(70)
Cash conversion cycle	<u>7</u>	<u>10</u>

Table of Contents

For the three months ended September 26, 2008, our days sales outstanding (“DSOs”) decreased by 4 days, days in inventory (“DIOs”) decreased by 3 days, and days payable outstanding (“DPOs”) decreased by 4 days compared to the prior-year period. DSOs decreased by 1 day, excluding the impact the Acquisition had on the prior-year period, as a result of the improved linearity of shipments in the current quarter as compared to the prior-year period. DSOs are also affected by changes in customer mix. The decrease in DIOs is primarily a result of our improved management of media inventory since the Acquisition.

DPOs increased by 2 days excluding the impact the Acquisition had on the prior-year period. From time to time, we modify the timing of payments to our vendors. We make modifications primarily to manage our vendor relationships and to manage our cash flows, including our cash balances. Generally, we make the payment modifications through negotiations with our vendors or by granting to, or receiving from, our vendors’ payment term accommodations.

Investing Activities

Net cash used in investing activities for the three months ended September 26, 2008 was \$161 million as compared to \$1.0 billion for the three months ended September 28, 2007. Investment activities in the three months ended September 26, 2008 consisted primarily of capital expenditures of \$162 million. Investment activities in the three months ended September 28, 2007 included \$911 million used in the Acquisition and \$163 million in capital expenditures, offset by \$65 million in net proceeds from investments.

For fiscal 2009, capital additions are currently expected to be approximately \$750 million. Depreciation and amortization expense for fiscal 2009 is expected to approximate \$475 million.

Our cash and cash equivalents of \$1.2 billion are invested primarily in readily accessible, AAA rated institutional money-market funds, the majority of which are backed by the U.S. government. We have auction-rate securities that are expected to be held until secondary markets become available and as a result have been classified as long-term investments. These investments are currently accounted for as available-for-sale securities and recorded at fair value within other non-current assets in the condensed consolidated balance sheet. The estimated market values of these investments are subject to fluctuation. Unrealized holding gains and losses are generally recorded in other comprehensive income. However, if a decline in fair value is determined to be other-than-temporary, the cost basis is written down to fair value through earnings. The carrying value of our investments in auction-rate securities was reduced from \$28 million as of June 27, 2008 to \$25 million as of September 26, 2008 as a result of the recognition of \$3 million in other-than-temporary losses.

Financing Activities

Net cash used in financing activities for the three months ended September 26, 2008 was \$31 million as compared to net cash provided by financing of \$741 million in the prior year. Net cash used in financing activities for the three months ended September 26, 2008 resulted primarily from \$36 million used to repurchase our common stock offset by \$8 million provided by excess tax benefits from employee stock plans. Net cash provided by financing activities for the three months ended September 28, 2007 resulted from \$750 million in debt proceeds used to fund the Acquisition and \$10 million in proceeds from the issuance of common stock under employee plans, offset by \$16 million used to repurchase our common stock and \$3 million used for debt repayment.

Off-Balance Sheet Arrangements

Other than facility and equipment lease commitments incurred in the normal course of business and certain indemnification provisions (see Contractual Obligations and Commitments below), we do not have any off-balance sheet financing

Table of Contents

arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not included in our unaudited condensed consolidated financial statements. Additionally, we do not have an interest in, or relationships with, any special-purpose entities.

Contractual Obligations and Commitments

Credit Facility — In February 2008, Western Digital Technologies, Inc. (“WDTI”), a wholly-owned subsidiary of the Company, entered into a five-year Credit Agreement (“Credit Facility”) that provides for a \$750 million unsecured loan consisting of a \$500 million term loan facility and a \$250 million revolving credit facility. The revolving credit facility includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline. In addition, WDTI may elect to expand the Credit Facility by up to \$250 million if existing or new lenders provide additional term or revolving commitments. The \$500 million term loan had a variable interest rate of 3.75% as of September 26, 2008 and requires sixteen quarterly principal payments beginning in June 2009 of approximately \$18 million, \$25 million, \$31 million and \$50 million per quarter for each four quarter increment. As of September 26, 2008, WDTI had \$250 million available for future borrowings on the revolving credit facility and was in compliance with all covenants.

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

We have entered into long-term purchase agreements with various component suppliers, which contain minimum quantity requirements. However, the dollar amount of the purchases may depend on the specific products ordered, achievement of pre-defined quantity or quality specifications or future price negotiations.

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – “Contractual Obligations and Commitments” in our Annual Report on Form 10-K for the year ended June 27, 2008, for further discussion of our purchase orders and purchase agreements and the associated dollar amounts.

We enter into, from time to time, other long-term purchase agreements for components with certain vendors. Generally, future purchases under these agreements are not fixed and determinable as they depend on our overall unit volume requirements and are contingent upon the prices, technology and quality of the supplier’s products remaining competitive. See Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of the risks associated with these commitments.

Forward Exchange Contracts — We purchase short-term, forward exchange contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. See Part I, Item 3, of this Quarterly Report on Form 10-Q under the heading “Disclosure About Foreign Currency Risk”, for our current forward exchange contract commitments.

Indemnifications — In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, products or services to be provided by us, or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We maintain

[Table of Contents](#)

director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers in certain circumstances.

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

Stock Repurchase Program — Our Board of Directors previously authorized us to repurchase \$750 million of our common stock in open market transactions. Since the inception of this stock repurchase program through September 26, 2008, we have repurchased 18 million shares for a total cost of \$284 million (including commissions). We expect stock repurchases to be funded principally by operating cash flows. We may continue to repurchase our stock as we deem appropriate and market conditions allow.

Unrecognized Tax Benefits — As of September 26, 2008, our total cash liability representing unrecognized tax benefits was \$31 million. We estimate the timing of the future payments of these liabilities to be within the next five years. See Part I, Item 1, Note 7 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information regarding our tax liability for unrecognized tax benefits.

Our investment policy is to manage our investment portfolio to preserve principal and liquidity while maximizing return through the full investment of available funds. We believe our current cash, cash equivalents and other sources of cash will be sufficient to meet our working capital needs through the foreseeable future. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

We have prepared the accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP. The preparation of the financial statements requires the use of judgment and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and shareholders' equity. We have adopted accounting policies and practices that are generally accepted in the industry in which we operate. We believe the following are our most critical accounting policies that affect significant areas and involve judgment and estimates made by us. If these estimates differ significantly from actual results, the impact to the consolidated financial statements may be material.

Revenue and Accounts Receivable

In accordance with standard industry practice, we have agreements with resellers that provide limited price protection for inventories held by resellers at the time of published list price reductions and other incentive programs. In accordance with current accounting standards, we recognize revenue upon delivery to OEMs, ODMs and resellers and record a reduction of revenue for estimated price protection and other programs in effect until the resellers sell such inventory to their customers. We base these adjustments on anticipated price decreases during the reseller holding period, estimated amounts to be reimbursed to qualifying customers, as well as historical pricing information. If end-market demand for hard drives declines significantly, we may have to increase sell-through incentive payments to resellers, resulting in an increase in our allowances, which could adversely impact operating results. We also have programs under which we reimburse qualified distributors and retailers for certain marketing expenditures which are recorded as a reduction of revenue. We apply the provisions of Emerging Issues Task Force No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) and such agreements and programs are recorded as a reduction of revenue.

We record an allowance for doubtful accounts by analyzing specific customer accounts and assessing the risk of loss based on insolvency, disputes or other collection issues. In addition, we routinely analyze the different receivable aging categories and establish reserves based on a combination of past due receivables and expected future losses based primarily on our historical levels of bad debt losses. If the financial condition of a significant

[Table of Contents](#)

customer deteriorates resulting in its inability to pay its accounts when due, or if our overall loss history changes significantly, an adjustment in our allowance for doubtful accounts would be required, which could affect operating results.

We establish provisions against revenue and cost of revenue for sales returns in the same period that the related revenue is recognized. We base these provisions on existing product return notifications. If actual sales returns exceed expectations, an increase in the sales return accrual would be required, which could negatively affect operating results.

Warranty

We record an accrual for estimated warranty costs when revenue is recognized. We generally warrant our products for a period of one to five years. Our warranty provision considers estimated product failure rates and trends, estimated repair or replacement costs and estimated costs for customer compensatory claims related to product quality issues, if any. We use a statistical warranty tracking model to help prepare our estimates and we exercise judgment in determining the underlying estimates. Our statistical tracking model captures specific detail on hard drive reliability, such as factory test data, historical field return rates, and costs to repair by product type. If actual product return trends, costs to repair returned products or costs of customer compensatory claims differ significantly from our estimates, our future results of operations could be materially affected. Our judgment is subject to a greater degree of subjectivity with respect to newly introduced products because of limited field experience with those products upon which to base our warranty estimates. We review our warranty accrual quarterly for products shipped in prior periods and which are still under warranty. Any changes in the estimates underlying the accrual may result in adjustments that impact current period gross margin and income. Such changes are generally a result of differences between forecasted and actual return rate experience and costs to repair. For a summary of historical changes in estimates related to pre-existing warranty provisions, refer to Part I, Item 1, Note 2 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Inventory

We value inventories at the lower of cost (first-in, first-out and weighted average methods) or net realizable value. We use the first-in, first-out method to value the cost of the majority of our inventories, while we use the weighted-average method to value our precious metals. Weighted-average cost is calculated based upon the cost of precious metals at the time they are received by us. We have determined that it is less practicable to assign specific costs to individual units of precious metal and, as such, we relieve our precious metals inventory based on the weighted-average cost of the inventory at the time the inventory is used in production. The weighted average method of valuing precious metals does not materially differ from a first-in, first-out method. We record inventory write-downs for the valuation of inventory at the lower of cost or net realizable value by analyzing market conditions and estimates of future sales prices as compared to inventory costs and inventory balances.

We evaluate inventory balances for excess quantities and obsolescence on a regular basis by analyzing estimated demand, inventory on hand, sales levels and other information, and reduce inventory balances to net realizable value for excess and obsolete inventory based on this analysis. Unanticipated changes in technology or customer demand could result in a decrease in demand for one or more of our products, which may require a write down of inventory that could negatively affect operating results.

Litigation and Other Contingencies

We apply Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies", to determine when and how much to accrue for and disclose related to legal and other contingencies. Accordingly, we disclose material contingencies deemed to be reasonably possible and accrue loss contingencies when, in

[Table of Contents](#)

consultation with our legal advisors, we conclude that a loss is probable and reasonably estimable (Refer to Part I, Item 1, Note 6 of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q). The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. The actual outcome of such matters could differ materially from management's estimates.

Income Taxes

We account for income taxes under the asset and liability method, which provides that deferred tax assets and liabilities be recognized for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities and expected benefits of utilizing net operating loss ("NOL") and tax credit carryforwards. We record a valuation allowance where it is more likely than not that the deferred tax assets will not be realized. Each period we evaluate the need for a valuation allowance for our deferred tax assets and we adjust the valuation allowance so that we record net deferred tax assets only to the extent that we conclude it is more likely than not that these deferred tax assets will be realized.

We recognize liabilities for uncertain tax positions based on the two-step process prescribed in Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109". To the extent a tax position does not meet a more-likely-than-not level of certainty, no benefit is recognized in the financial statements. If a position meets the more-likely-than-not level of certainty, it is recognized in the financial statements at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Interest and penalties related to unrecognized tax benefits are recognized on liabilities recorded for uncertain tax positions and are recorded in our provision for income taxes. The actual liability for unrealized tax benefit in any such contingency may be materially different from our estimates, which could result in the need to record additional liabilities for unrecognized tax benefits or potentially adjust previously recorded liabilities for unrealized tax benefits.

Stock-Based Compensation

We account for all stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). Under these provisions, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. The fair values of all stock options granted are estimated using a binomial model, and the fair values of all Employee Stock Purchase Plan ("ESPP") shares are estimated using the Black-Scholes-Merton option pricing model. Both the binomial and the Black-Scholes-Merton models require the input of highly subjective assumptions. Under SFAS 123(R), we are required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ significantly from the original estimate, stock-based compensation expense and our results of operations could be materially impacted.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurement. In February 2008, FASB issued FASB Staff Position 157-2 ("FSP 157-2"), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008 and interim periods within those years, which for the Company is the first quarter of fiscal 2010. The partial adoption of SFAS 157 for financial assets and financial liabilities in the Company's first quarter of fiscal 2009 did not have a material impact on its consolidated financial statements. The Company is currently evaluating the impact the adoption of SFAS 157 will have on the non-financial assets and non-financial liabilities in its consolidated financial statements.

[Table of Contents](#)

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company chose not to elect the fair value option for eligible items, and accordingly, the adoption of SFAS 159 in its first quarter of fiscal 2009 had no impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008, which for the Company is the first quarter of fiscal year 2010. The Company is currently evaluating the impact of adoption of SFAS 141(R) will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 updates guidance regarding disclosure requirements for derivative instruments and hedging activities. It responds to constituents’ concerns that FASB Statement No. 133 does not provide adequate information about how derivative and hedging activities affect an entity’s financial position, financial performance, and cash flows. The disclosure of fair values of derivative instruments and their gains and losses in a tabular format, as required by SFAS 161, should provide a more complete picture of the location in an entity’s financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for the Company is the third quarter of fiscal 2009. The Company is currently evaluating the impact the adoption of SFAS 161 will have on its consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 “Goodwill and Other Intangible Assets”. FSP FAS 142-3 is effective for fiscal years beginning on or after December 15, 2008, which for the Company is the first quarter of fiscal 2010. The Company is currently evaluating the impact the adoption of FSP FAS 142-3 will have on its consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure About Foreign Currency Risk

Although the majority of our transactions are in U.S. dollars, some transactions are based in various foreign currencies. We purchase short-term, foreign exchange contracts to hedge the impact of foreign currency exchange fluctuations on certain underlying assets, liabilities and commitments for operating expenses and product costs denominated in foreign currencies. The purpose of entering into these hedge transactions is to minimize the impact of foreign currency fluctuations on our results of operations. The contract maturity dates do not exceed 12 months. We do not purchase short-term forward exchange contracts for trading purposes. Currently, we focus on hedging our foreign currency risk related to the Thai Baht, Malaysian Ringgit, Euro and the British Pound Sterling. Malaysian Ringgit contracts are designated as cash flow hedges. Euro and British Pound Sterling contracts are designated as fair value hedges. Thai Baht contracts are designated as both cash flow and fair value hedges. See Part II, Item 8,

[Table of Contents](#)

Note 1 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended June 27, 2008.

As of September 26, 2008, we had outstanding the following purchased foreign exchange contracts (in millions, except weighted average contract rate):

	<u>Contract Amount</u>	<u>Weighted Average Contract Rate*</u>	<u>Unrealized Loss</u>
Foreign exchange contracts:			
Thai Baht cash flow hedges	\$542	33.52	\$ (8)
Thai Baht fair value hedges	\$131	33.98	—
Malaysian Ringgit cash flow hedges	\$227	3.27	\$ (6)
Euro fair value hedges	\$ 10	0.68	—

* Expressed in units of foreign currency per dollar.

During the three-month periods ended September 26, 2008 and September 28, 2007, total net realized transaction and forward exchange contract currency gains and losses were not material to the condensed consolidated financial statements.

Disclosure About Other Market Risks

Variable Interest Rate Risk

Borrowings under the Credit Facility bear interest at a rate equal to, at the option of WDTI, either (a) a LIBOR rate determined by reference to the cost of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs (the "Eurocurrency Rate") or (b) a base rate determined by reference to the higher of (i) the federal funds rate plus 0.50% and (ii) the prime rate as announced by JPMorgan Chase Bank, N.A. (the "Base Rate"), in each case plus an applicable margin. The applicable margin for borrowings under the term loan facility ranges from 1.25% to 1.50% with respect to borrowings at the Eurocurrency Rate and 0.0% to 0.125% with respect to borrowings at the Base Rate. The applicable margin for revolving loan borrowings under the revolving credit facility ranges from 0.8% to 1.125% with respect to borrowings at the Eurocurrency Rate and 0.0% to 0.125% with respect to borrowings at the Base Rate. The applicable margins for borrowings under the Credit Facility are determined based upon a leverage ratio of the Company and its subsidiaries calculated on a consolidated basis. If either the base rate or LIBOR rate increase, our interest payments would also increase. A one percent increase in the variable rate of interest on the Credit Facility would increase interest expense by approximately \$5 million annually.

Credit Market Risk

Our long-term investments consist of auction-rate securities totaling \$25 million as of September 26, 2008. The negative conditions in the global credit markets have prevented us from liquidating some of our holdings of auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. If the credit markets do not improve, auctions for our invested amounts may continue to fail. If this occurs, we may be unable to liquidate some or all of our auction-rate securities at par should we need or desire to access the funds invested in those securities prior to maturity of the underlying assets. In the event we need or desire to access these funds, we will not be able to do so until a future auction on these investments is successful or a buyer is found outside the auction process. If a buyer is found but is unwilling to purchase the investments at par, we may incur a loss. The market values of some of the auction-rate securities we owned were impacted by the macro-economic credit market conditions. Rating downgrades of the security issuer or the third-parties insuring such

[Table of Contents](#)

investments may require us to adjust the carrying value of these investments through an impairment charge. Based on our ability to access our cash, cash equivalents and short-term investments, our expected operating cash flows and our other sources of cash, we do not anticipate these investments will affect our ability to execute our current business plan.

Item 4. CONTROLS AND PROCEDURES

As required by SEC Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective. There has been no change in our internal control over financial reporting during the quarter ended September 26, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 6 of our unaudited Condensed Consolidated Financial Statements, which is incorporated by reference in response to this item.

Item 1A. RISK FACTORS

We have updated a number of the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the fiscal year ended June 27, 2008. Except for the first five risk factors below, there have been no material changes in our assessment of the risk factors that we have updated. All of our risk factors are included below.

Negative worldwide economic conditions could result in a decrease in our sales and revenue and an increase in our operating costs, which could adversely affect our business and operating results.

If the current worldwide economic downturn continues, many of our direct and indirect customers may delay or reduce their purchases of hard drives and systems containing hard drives. In addition, many of our customers in each of the OEM, distribution and retail channels rely on credit financing in order to purchase our products. If the negative conditions in the global credit markets prevent our customers' access to credit, product orders in these channels may decrease which could result in lower revenue. Likewise, if our suppliers face challenges in obtaining credit, in selling their products or otherwise in operating their businesses, they may become unable to continue to offer the materials we use to manufacture our products. These actions could cause reductions in our revenue, increased price competition and increased operating costs, which could adversely affect our business, results of operations and financial condition.

Negative worldwide economic conditions could prevent us from accurately forecasting demand for our products which could adversely affect our operating results or market share.

The current negative worldwide economic conditions and market instability makes it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand trends, which could cause us to produce excess products that can increase our inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in our products, that could result in an inability to satisfy demand for our products and a loss of market share.

Negative global economic conditions increase the risk that we could suffer unrecoverable losses on our customers' accounts receivable which would adversely affect our financial results.

We finance a portion of our sales through trade credit. In addition to ongoing credit evaluations of our customers' financial condition, we seek to mitigate our credit risk by purchasing credit insurance on certain of our accounts receivable balances. We could suffer significant losses if a customer whose accounts receivable we have not insured, or underinsured, fails and is unable to pay us. Additionally, as global economic conditions worsen, the risk increases that if a customer whose accounts receivable we have insured fails, the financial condition of the insurance carrier for such customer account may have also deteriorated such that it cannot cover our loss. A significant loss of an accounts receivable that we cannot recover through credit insurance would have a negative impact on our financial results.

Our entry into additional storage markets increases the complexity of our business and if we are unable to successfully adapt our business processes as required by these new markets we will be at a competitive disadvantage and our ability to grow will be adversely affected.

[Table of Contents](#)

As we expand our product line to sell into additional storage markets, the overall complexity of our business increases at an accelerated rate and we must make necessary adaptations to our business model to address these complexities. For example, as we have previously disclosed, we have been investing in technology to develop and support a product line to sell to mainstream enterprise market customers. In addition to requiring significant capital expenditures, our entry into the mainstream enterprise market adds complexity to our business that requires us to effectively adapt our business and management processes to address the unique challenges and different requirements of the mainstream enterprise market, while maintaining a competitive operating cost model. If we fail or are delayed in our attempts to enter into the mainstream enterprise storage market, we will remain at a competitive disadvantage to the companies that serve this market and our ability to continue our growth will be negatively affected.

If we fail to be competitive against alternative storage technologies our business may suffer.

Our success depends in part on our ability to develop and introduce new products in a timely manner in order to keep pace with competing technologies. Companies that produce alternative storage technologies like solid state storage, or flash memory technology, have successfully served digital entertainment markets for products such as digital cameras, MP3 players, USB flash drives and mobile phones that require lower capacity and lower performance without regard to cost-per-gigabyte. Typically, storage needs for higher capacity and performance, with lower cost-per-gigabyte, have been better served by hard drives. However, advances in semiconductor technology have resulted in flash memory emerging as a technology that is competitive with hard drives for niche high performance needs in advanced digital computing markets such as enterprise servers and storage, in spite of the associated challenges in the attributes of cost, capacity and reliability. Additionally, solid state storage is produced by large semiconductor companies who can sell their products at lower prices and operate their solid state storage business unit at a loss while still remaining profitable overall in an attempt to gain market share. There can be no assurance that we will be successful in anticipating and developing new products in response to solid state storage, as well as other competing technologies, and if our hard drive technology fails to offer higher capacity, performance and reliability with lower cost-per-gigabyte than solid state storage, we will be at a competitive disadvantage to companies using semiconductor technology and our business will suffer.

Declines in average selling prices (“ASPs”) in the hard drive industry could adversely affect our operating results.

Historically, the hard drive industry has experienced declining ASPs. Our ASPs tend to decline when competitors lower prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, restructure or attempt to gain market share. Our ASPs also decline when there is a shift in the mix of product sales, and sales of lower priced products increase relative to those of higher priced products. When ASPs in the hard drive industry decline, our ASPs are also likely to decline, which adversely affects our operating results.

If we fail to anticipate or timely respond to changes in the markets for hard drives, our operating results could be adversely affected.

During past economic downturns, as well as over the past few years, the consumer market for computers has shifted significantly towards lower priced systems and we therefore expect this trend to continue in light of the current negative worldwide macroeconomic conditions. If we are not able to continue to offer a competitively priced hard drive for the low-cost PC market, our share of that market will likely fall, which could harm our operating results. The market for hard drives is also fragmenting into a variety of devices and products. Many industry analysts expect, as do we, that, as content increasingly converts to digital technology from the older, analog technology, the technology of computers and consumer electronics will continue to converge, and hard drives may be found in many products other than computers, such as consumer electronic devices. Accurate forecasts for future requirements of these new markets remain challenging.

[Table of Contents](#)

Moreover, some devices, such as personal video recorders and digital video recorders, or some new PC operating systems which allow greater consumer choice in levels of functionality, therefore allowing for greater market differentiation, may require attributes not currently offered in our products, resulting in a need to develop new interfaces, form factors, technical specifications or hard drive features, increasing our overall operational expense without corresponding incremental revenue at this stage. If we are not successful in continuing to deploy our hard drive technology and expertise to develop new products for the emerging CE market, or if we are required to incur significant costs in developing such products, it may harm our operating results.

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

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

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

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

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

In order to efficiently and timely meet the demands of our OEM customers, we position our products in multiple strategic locations based on the amounts forecasted by such customers. If an OEM customer's actual product demands decrease significantly from its forecast, then we may incur additional costs in re-locating the products that have not been purchased by the OEM. This could result in a delay in our product sales and an increase in our operating costs, which may negatively impact our operating results.

Increases in areal density may outpace customers' demand for storage capacity, which may lower the prices our customers are willing to pay for new products.

Historically, the industry has experienced periods of variable areal density growth rates. When the rate of areal density growth increases, the rate of increase may exceed the increase in our customers' demand for aggregate storage capacity. Furthermore, our customers' demand for storage capacity may not continue to grow at current industry estimates as a result of developments in the regulation and enforcement of digital rights management or otherwise. These factors could lead to our customers' storage capacity needs being satisfied with lower capacity

[Table of Contents](#)

hard drives at lower prices, thereby decreasing our revenue. As a result, even with increasing aggregate demand for storage capacity, our ASPs could decline, which could adversely affect our operating results.

Expansion into new hard drive markets may cause our capital expenditures to increase and if we do not successfully expand into new markets, our business may suffer.

To remain a significant supplier of hard drives, we will need to offer a broad range of hard drive products to our customers. We currently offer a variety of 3.5-inch hard drives for the desktop, enterprise, CE and external storage markets, and we also offer 2.5-inch form factor hard drives for the mobile, CE and external storage markets. However, demand for hard drives may shift to products in form factors or with interfaces that our competitors offer but which we do not. Expansion into other hard drive markets and resulting increases in manufacturing capacity requirements may require us to make substantial additional investments due in part because our operations are largely vertically integrated now that we manufacture heads and media for use in many of the hard drives we manufacture. If we fail to successfully expand into new hard drive markets with products that we do not currently offer, we may lose business to our competitors who offer these products.

If we fail to successfully manage our new product development or new market expansion, or if we fail to anticipate the issues associated with such development or expansion, our business may suffer.

While we continue to develop new products and look to expand into other hard drive markets, the success of our new product introductions depends on a number of factors, including our ability to anticipate and manage a variety of issues associated with these new products and new markets, such as:

- difficulties faced in manufacturing ramp;
- market acceptance;
- effective management of inventory levels in line with anticipated product demand; and
- quality problems or other defects in the early stages of new product introduction that were not anticipated in the design of those products.

Further, we need to identify how any of the hard drive markets into which we are expanding may have different characteristics from the markets in which we currently exist and properly address these differences. These characteristics may include:

- demand volume requirements;
- demand seasonality;
- product generation development rates;
- customer concentrations;
- warranty expectations and product return policies; and
- cost, performance and compatibility requirements.

Our business may suffer if we fail to successfully anticipate and manage these issues associated with our product development and market expansion. For example, our branded products are designed to attach to and interoperate

[Table of Contents](#)

with a wide variety of PC and CE devices and therefore their functionality is reliant on the manufacturer of such devices, or the associated operating systems, enabling the manufacturer's devices to operate with our branded products. If our branded products are not compatible with a wide variety of devices, or if device manufacturers design their devices so that our branded products cannot operate with them, and we cannot quickly and efficiently adapt our branded products to address these compatibility issues, our business could suffer.

Expanding into new hard drive markets exposes our business to different seasonal demand cycles, which in turn could adversely affect our operating results.

The CE and retail markets have different seasonal pricing and volume demand cycles as compared to the PC market. By expanding into these markets, we became exposed to seasonal fluctuations that are different from, and in addition to, those of the PC market. For example, because the primary customer for products such as our branded products are individual consumers, these markets experience a dramatic increase in demand during the winter holiday season. If we do not properly adjust our supply to new demand cycles such as this, we risk having excess inventory during periods of low demand and insufficient inventory during periods of high demand, therefore adversely affecting our operating results.

If we do not adapt to the changing requirements or predict the size and demands of the 2.5-inch hard drive markets, our market share and business may suffer.

To remain a market leader for 2.5-inch hard drives in the mobile market, we must predict and successfully adapt to the requirements of the mobile markets, such as different features, performance and form factors. As the mobile market evolves, the requirements in this market may expand for products that we do not currently offer such as solid state storage products or 1.8-inch form factor hard drives. We must predict and quickly react to these changing requirements especially as the mobile market becomes an increasingly more important part of our overall business.

If we do not predict the size and demands of the markets for 2.5-inch hard drives, including the mobile market, we may lose our market leadership position and our business may suffer. For example, if a market that traditionally has used 3.5-inch hard drives, such as the desktop PC market, shifts its volume demand to 2.5-inch hard drives at a faster rate than we anticipate, our ability to meet the demands of such market, as well as continuing to meet the demands of the mobile market, may be impaired, which may cause us to lose market share and our business may suffer.

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

We sell our branded products directly to a select group of major retailers, such as computer superstores and CE stores, and authorize sales through distributors to other retailers and online resellers. Our current retail customer base is primarily in the United States, Canada and Europe. We are facing increased competition from other companies for shelf space at a small number of major retailers that have strong buying power and pricing leverage. If we fail to successfully maintain a customer preference for WD®-brand products or fail to successfully expand into multiple channels, our operating results may be adversely affected.

Additionally, we face strong competition in maintaining and trying to grow our market share in the retail market, particularly because of the relatively low barriers to entry in this market. For example, several additional hard drive manufacturers have recently disclosed plans to expand into the external storage market and as these companies attempt to gain market share, we may have difficulty in maintaining or growing our market share and there may be increased downward pressure on pricing. We will continue to introduce new products in the retail market that incorporate our disk drives; however, there can be no assurance that these products will gain market acceptance, and if they do not, our operating results could suffer.

Table of Contents

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

During the quarter ended September 26, 2008, a large percentage of our revenue came from sales to our top 10 customers, which accounted for 51% of our revenue. These customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. Even if we successfully qualify a product with a customer, the customer is not generally obligated to purchase any minimum volume of products from us and may be able to cancel an order or terminate its relationship with us at any time. Our ability to maintain strong relationships with our principal customers is essential to our future performance. If we lose a key customer, if any of our key customers reduce their orders of our products or require us to reduce our prices before we are able to reduce costs, if a customer is acquired by one of our competitors or if a key customer suffers financial hardship, our operating results would likely be harmed. In addition, if customer pressures require us to reduce our pricing such that our gross margins are diminished, we could decide not to sell our products to a particular customer, which could result in a decrease in our revenue.

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

It may be possible for our current or future competitors to gain an advantage in product technology, manufacturing technology, or process technology, which may allow them to offer products or services that have a significant advantage over the products and services that we offer. Advantages could be in capacity, performance, reliability, serviceability, or other attributes. We may be at a competitive disadvantage to any companies that are able to gain these advantages.

Further industry consolidation could provide competitive advantages to our competitors.

The hard drive industry has experienced consolidation over the past several years. Consolidation by our competitors may enhance their capacity, abilities and resources and lower their cost structure, causing us to be at a competitive disadvantage. Additionally, continued industry consolidation may lead to uncertainty in areas such as component availability, which could negatively impact our cost structure.

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

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

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

The price of hard drives has fallen over time due to increases in supply, cost reductions, technological advances and price reductions by competitors seeking to liquidate excess inventories or attempting to gain market share. In addition, rapid technological changes often reduce the volume and profitability of sales of existing products and

[Table of Contents](#)

increase the risk of inventory obsolescence. These factors, taken together, may result in significant shifts in market share among the industry's major participants. In addition, product recalls can lead to a loss of market share, which could adversely affect our operating results.

Some of our competitors with diversified business units outside the hard drive industry periodically sell hard drives at prices that we cannot profitably match.

Some of our competitors earn a significant portion of their revenue from business units outside the hard drive industry. Because they do not depend solely on sales of hard drives to achieve profitability, they periodically sell hard drives at lower prices and operate their hard drive business unit at a loss while still remaining profitable overall. In addition, if these competitors can increase sales of non-hard drive products to the same customers, they may benefit from selling their hard drives at lower prices. Our operating results may be adversely affected if we cannot successfully compete with the pricing by these companies.

If we fail to qualify our products with our customers or if product life cycles lengthen, it may have a significant adverse impact on our sales and margins.

We regularly engage in new product qualification with our customers. Once a product is accepted for qualification testing, failures or delays in the qualification process can result in delayed or reduced product sales, reduced product margins caused by having to continue to offer a more costly current generation product, or lost sales to that customer until the next generation of products is introduced. The effect of missing a product qualification opportunity is magnified by the limited number of high volume OEMs, which continue to consolidate their share of the storage markets. Likewise, if product life cycles lengthen, we may have a significantly longer period to wait before we have an opportunity to qualify a new product with a customer, which could reduce our profits because we expect declining gross margins on our current generation products as a result of competitive pressures.

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

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

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

A competitive cost structure is critical to our operating results and increased costs may adversely affect our operating margin.

A competitive cost structure for our products, including critical components, labor and overhead, is critical to the success of our business, and our operating results depend on our ability to maintain competitive cost structures on

[Table of Contents](#)

new and established products. If our competitors are able to achieve a lower cost structure for manufacturing hard drives, and we are unable to match their cost structure, we could be at a competitive disadvantage to those competitors.

Shortages of commodity materials, price volatility, or use by other industries of materials used in the hard drive industry, may increase our cost structure.

There are costs for certain commodity materials, an increase of which increases our costs of manufacturing and transporting hard drives and key components. Shortages of materials such as stainless steel, aluminum, nickel, neodymium, ruthenium or platinum increase our costs and may result in lower operating margins if we are unable to find ways to mitigate these increased costs. For example, perpendicular recording technology requires increased usage of precious metals such as ruthenium and platinum, the price of which may continue to be volatile, which could adversely affect our operating margins. Furthermore, if other high volume industries increase their demand for materials such as these, our costs may further increase which could have an adverse effect on our operating margins. The volatility in the cost of oil also affects our transportation costs and may result in lower operating margins if we are unable to pass these increased costs through to our customers.

If we fail to maintain effective relationships with our major component suppliers, our supply of critical components may be at risk and our profitability could suffer.

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

Violation of labor or environmental laws and practices by our suppliers or sub-suppliers could harm our business.

We expect our suppliers to operate in compliance with applicable laws and regulations, including labor and environmental laws, and to otherwise meet our required supplier standards of conduct. While our internal operating guidelines promote ethical business practices, we do not control our suppliers or sub-suppliers or their labor or environmental practices. The violation of labor, environmental or other laws by any of our suppliers or sub-suppliers, or divergence of a supplier’s or sub-supplier’s labor or environmental practices from those generally accepted as ethical in the U.S., could harm our business by:

- interrupting or otherwise disrupting the shipment of our product components;
- damaging our reputation;
- forcing us to find alternate component sources;
- reducing demand for our products (for example, through a consumer boycott); or
- exposing us to potential liability for our supplier’s or sub-supplier’s wrongdoings.

[Table of Contents](#)

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

Certain components are available from a limited number of suppliers, and we are sole sourced with some of these suppliers on certain products. Because we depend on a limited number of suppliers for certain hard drive components and manufacturing equipment, each of the following could significantly harm our operating results:

- an unwillingness of a supplier to supply such components or equipment to us;
- an increase in the cost of such components or equipment;
- an extended shortage of required components or equipment;
- consolidation of key suppliers, such as the acquisition of Brilliant Manufacturing Limited by Nidec Corporation, the acquisition of Agere Systems Inc. by LSI Corporation, the acquisition of Infineon Technologies' hard drive semiconductor business by LSI Corporation, the acquisition of Alps Electric Co. Ltd.'s magnetic device division's assets and related intellectual property by TDK Corp, the acquisition of Magnecomp Precision Technology Public Company Limited by TDK Corp, and the planned hard disk media operations joint venture between Showa Denko K.K. and Hoya Corporation;
- failure of a key supplier's business process;
- a key supplier's or sub-supplier's inability to access credit necessary to operate its business; or
- failure of a key supplier to remain in business, to remain an independent merchant supplier, to adjust to market conditions, or to meet our quality, yield or production requirements.

If components and equipment that we use are available from only a limited number of suppliers or are in short supply, it may negatively impact our production and cause us to lose revenue.

Our future operating results may also depend substantially on our suppliers' ability to timely qualify their components in our programs, and their ability to supply us with these components in sufficient volumes to meet our production requirements. A number of the components that we use are available from only a single or limited number of qualified outside suppliers, and may be used across multiple product lines. In addition, some of the components (or component types) used in our products are used in other devices, such as mobile telephones and digital cameras. If there is a significant simultaneous upswing in demand for such a component (or component type) from several high volume industries, resulting in a supply reduction, or a component is otherwise in short supply, or if a supplier fails to qualify or has a quality issue with a component, we may experience delays or increased costs in obtaining that component. If we are unable to obtain sufficient quantities of materials used in the manufacture of magnetic components, or other necessary components, we may experience production delays which could cause us loss of revenue. If a component becomes unavailable, we could suffer significant loss of revenue.

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

Contractual commitments with component suppliers may result in us paying increased charges and cash advances for such components.

[Table of Contents](#)

To reduce the risk of component shortages, we attempt to provide significant lead times when buying components. As a result, we may be subject to cancellation charges if we cancel orders, which may occur when we make technology transitions or when our component needs change. In addition, we have entered into contractual commitments with component suppliers, and may enter into contractual commitments with other component suppliers, in an effort to increase and stabilize the supply of those components and enable us to purchase such components at favorable prices. Some of these commitments require or may require us to buy a substantial number of components from the supplier or make significant cash advances to the supplier; however, these commitments may not result in a satisfactory increase or stabilization of the supply of such components.

Failure by certain suppliers to effectively and efficiently develop and manufacture components, technology or production equipment for our products may adversely affect our operations.

We rely on suppliers for various component parts that we integrate into our hard drives but do not manufacture ourselves, such as semiconductors, motors, flex circuits and suspensions. Likewise, we rely on suppliers for certain technology and equipment necessary for advanced development technology for future products. Some of these components, and most of this technology and production equipment, must be specifically designed to be compatible for use in our products or for developing and manufacturing our future products, and are only available from a limited number of suppliers, some of with whom we are sole sourced. We are therefore dependent on these suppliers to be able and willing to dedicate adequate engineering resources to develop components that can be successfully integrated with our products, and technology and production equipment that can be used to develop and manufacture our next-generation products efficiently. The failure of these suppliers to effectively and efficiently develop and manufacture components that can be integrated into our products or technology and production equipment that can be used to develop or manufacture next generation products may cause us to experience inability or delay in our manufacturing and shipment of hard drive products, our expansion into new technology and markets, or our ability to remain competitive with alternative storage technologies, therefore adversely affecting our business and financial results.

There are certain additional capital expenditure costs and asset utilization risks to our business associated with our strategy to vertically integrate our operations.

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

In addition, we may incur additional risks, including:

- failure to continue to leverage the integration of our media technology with our head technology;
- insufficient third party sources to satisfy our needs if we are unable to manufacture a sufficient supply of heads or media;
- third party head or media suppliers may not continue to do business with us or may not do business with us on the same terms and conditions we have previously enjoyed;

Table of Contents

- claims that our manufacturing of heads or media may infringe certain intellectual property rights of other companies; and
- difficulties locating in a timely manner suitable manufacturing equipment for our head or media manufacturing processes and replacement parts for such equipment.

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

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

Under our business plan, we are developing and manufacturing a substantial portion of the heads and media used in some of the hard drive products we manufacture. Consequently, we are more dependent upon our own development and execution efforts and less able to take advantage of head and media technologies developed by other manufacturers. Technology transition for head and media designs is critical to increasing our volume production of heads and media. There can be no assurance, however, that we will be successful in timely and cost-effectively developing and manufacturing heads or media for products using future technologies. We also may not effectively transition our head or media design and technology to achieve acceptable manufacturing yields using the technologies necessary to satisfy our customers' product needs, or we may encounter quality problems with the heads or media we manufacture. In addition, we may not have access to external sources of supply without incurring substantial costs which would negatively impact our business and financial results.

Changes in product life cycles could adversely affect our financial results.

If product life cycles lengthen, we may need to develop new technologies or programs to reduce our costs on any particular product to maintain competitive pricing for that product. If product life cycles shorten, it may result in an increase in our overall expenses and a decrease in our gross margins, both of which could adversely affect our operating results. In addition, shortening of product life cycles also makes it more difficult to recover the cost of product development before the product becomes obsolete. Our failure to recover the cost of product development in the future could adversely affect our operating results.

If we fail to make the technical innovations necessary to continue to increase areal density, we may fail to remain competitive.

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

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

Historically, when the industry experiences a fundamental change in technology, any manufacturer that fails to successfully and timely adjust its designs and processes to accommodate the new technology fails to remain competitive. There are some technologies, such as current-perpendicular-to-plane ("CPP") and energy assisted

[Table of Contents](#)

magnetic recording, discrete track recording (“DTR”) and other similar potentially break through technology, that will represent revolutionary recording technologies if they can be implemented by a competitor on a commercially viable basis ahead of the industry, which could put us at a competitive disadvantage. As a result of these technology shifts, we could incur substantial costs in developing new technologies, such as heads, media, and tools to remain competitive. If we fail to successfully implement these new technologies, or if we are significantly slower than our competitors at implementing new technologies, we may not be able to offer products with capacities that our customers desire. For example, new recording technology requires changes in the manufacturing process of heads and media, which may cause longer production times and reduce the overall availability of media in the industry. Additionally, the new technology requires a greater degree of integration between heads and media which may lengthen our time of development of hard drives using this technology.

Furthermore, as we attempt to develop and implement new technologies, we may become more dependent on suppliers to ensure our access to components, technology and production equipment that accommodate the new technology. For example, advanced wafer and media manufacturing technologies have historically been developed for use in the semiconductor industry prior to the hard drive industry. However, successful implementation of the use of DTR with hard drive media currently presents a significant technical challenge facing the hard drive industry but not the semiconductor industry. Therefore, our suppliers may not be willing to dedicate adequate engineering resources to develop manufacturing equipment for DTR media prior to a need for the equipment in the semiconductor industry. We believe that if DTR technology is not successfully implemented in the hard drive industry, then alternative storage technologies like solid state storage may more rapidly overtake hard drives as the preferred storage solution for higher capacity storage needs. This result would put us at a competitive disadvantage and negatively impact our operating results.

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

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

If we do not properly manage the technology transitions of our products, our competitiveness and operating results may be negatively affected.

The storage markets in which we offer our products continuously undergo technology transitions which we must anticipate and adapt our products to address in a timely manner. For example, serial interfaces normally go through cycles in which their maximum speeds double. We must effectively manage the transition of the features of our products to address these faster interface speeds in a timely manner in order to remain competitive and cost effective. If we fail to successfully and timely manage the transition to faster interface speeds, we may be at a competitive disadvantage to other companies that have successfully adapted their products in a timely manner and our operating results may suffer.

[Table of Contents](#)

Our high-volume hard drive and media manufacturing facilities, and the manufacturing facilities of many of our suppliers, are concentrated in Asia, which subjects us to the risk of damage or loss of any of these facilities and localized risks to employees in these locations.

Our high-volume hard drive and media manufacturing facilities are in Malaysia and Thailand and the manufacturing facilities of many of our suppliers are in Asia. A condition or event such as political instability, civil unrest or a power outage, or a fire, flood, earthquake or other disaster that adversely affects any of these facilities or our ability to manufacture could limit the total volume of hard drives we are able to manufacture and result in a loss of sales and revenue and harm our operating results. Similarly, a localized health risk affecting our employees or the staff of our suppliers, such as a new pandemic influenza in Asia, could impair the total volume of hard drives that we are able to manufacture.

Our head manufacturing operations include a single wafer fabrication facility in California and a single head gimbal assembly facility in Thailand, and our media operations include four facilities in Malaysia, which subjects us to substantial risk of damage or loss if operations at any of these facilities are disrupted.

We design and manufacture a substantial portion of the heads and media required for the hard drives we manufacture. We fabricate wafers in our Fremont, California facility, and the wafers are then sent to our Thailand facility for slider fabrication and wafer slicing and HGA assembly and testing. Additionally, we manufacture the majority of our media and substrates in four facilities in Penang, Johor and Sarawak, Malaysia. A fire, flood, earthquake or other disaster, condition or event such as a power outage that adversely affects any of these facilities would significantly affect supply of our heads or media, and limit our ability to manufacture hard drives which would result in a substantial loss of sales and revenue and a substantial harm to our operating results.

Our operating results will be adversely affected if we fail to optimize the overall quality, time-to-market and time-to-volume of new and established products.

To achieve consistent success with our customers, we must balance several key attributes such as time-to-market, time-to-volume, quality, cost, service, price and a broad product portfolio. Our operating results will be adversely affected if we fail to:

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

[Table of Contents](#)

Manufacturing and marketing our products abroad subjects us to numerous risks.

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

- obtaining requisite U.S. and foreign governmental permits and approvals;
- currency exchange rate fluctuations or restrictions;
- political instability and civil unrest, such as the recent protests and violence in Bangkok, Thailand;
- limited transportation availability, delays, and extended time required for shipping, which risks may be compounded in periods of price declines;
- higher freight rates;
- labor problems;
- trade restrictions or higher tariffs;
- copyright levies or similar fees imposed in European and other countries;
- exchange, currency and tax controls and reallocations;
- increasing labor and overhead costs; and
- loss or non-renewal of favorable tax treatment under agreements or treaties with foreign tax authorities.

Terrorist attacks may adversely affect our business and operating results.

The continued threat of terrorist activity and other acts of war or hostility have created uncertainty in the financial and insurance markets and have significantly increased the political, economic and social instability in some of the geographic areas in which we operate. Additionally, it is uncertain what impact the reactions to such acts by various governmental agencies and security regulators worldwide will have on shipping costs. Acts of terrorism, either domestically or abroad, could create further uncertainties and instability. To the extent this results in disruption or delays of our manufacturing capabilities or shipments of our products, our business, operating results and financial condition could be adversely affected.

Sudden disruptions to the availability of freight lanes could have an impact on our operations.

We ship the majority of our products to our various customers via air freight. The sudden unavailability of air cargo operations used to ship our products would impair our ability to deliver our products in a timely and efficient manner, which could adversely impact our operating results. We also ship a portion of our product via ocean freight, and events or conditions at shipping ports, such as labor difficulties or disputes, could also impact our operating results by impairing our ability to timely and efficiently deliver these products.

We are vulnerable to system failures, which could harm our business.

We are heavily dependent on our technology infrastructure, among other functions, to operate our factories, sell our products, fulfill orders, manage inventory and bill, collect and make payments. Our systems are vulnerable to

damage or interruption from natural disasters, power loss, telecommunication failures, computer viruses, computer denial-of-service attacks and other events. Our business is also subject to break-ins, sabotage and intentional acts of vandalism by third parties as well as employees. Despite any precautions we may take, such problems could result in, among other consequences, interruptions in our business, which could harm our reputation and financial condition.

If we are unable to retain or hire key staff and skilled employees our business results may suffer.

Our success depends upon the continued contributions of our key staff and skilled employees, many of whom would be extremely difficult to replace. Worldwide competition for skilled employees in the hard drive industry is intense and as we attempt to move to a position of technology leadership in the storage industry, our business success becomes increasingly dependent on our ability to retain our key staff and skilled employees as well as attract, integrate and retain new skilled employees. Volatility or lack of positive performance in our stock price and the overall markets may adversely affect our ability to retain key staff or skilled employees who have received equity compensation, and this risk has been increased by the recent rapid drop of our stock price which has caused many of our key staff and skilled employees to lose the value of the equity compensation that they have received as an incentive to remain in our employ and work towards the success of our operations. Additionally, because a substantial portion of our key employees' compensation is placed "at risk" and linked to the performance of our business, when our operating results are negatively impacted by events such as the current global economic downturn, we are at a competitive disadvantage for retaining and hiring key staff and skilled employees versus other companies that pay a relatively higher fixed salary. If we are unable to retain our existing key staff or skilled employees, or hire and integrate new key staff or skilled employees, or if we fail to implement succession plans for our key staff, our operating results would likely be harmed.

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

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

We evaluate notices of alleged patent infringement and notices of patents from patent holders that we receive from time to time. If claims or actions are asserted against us, we may be required to obtain a license or cross-license, modify our existing technology or design a new non-infringing technology. Such licenses or design modifications can be extremely costly. In addition, we may decide to settle a claim or action against us, which settlement could be costly. We may also be liable for any past infringement. If there is an adverse ruling against us in an infringement lawsuit, an injunction could be issued barring production or sale of any infringing product. It could also result in a damage award equal to a reasonable royalty or lost profits or, if there is a finding of willful infringement, treble damages. Any of these results would increase our costs and harm our operating results.

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

Our success depends, in significant part, on the proprietary nature of our technology, including non-patentable intellectual property such as our process technology. Despite safeguards, to the extent that a competitor is able to reproduce or otherwise capitalize on our technology, it may be difficult, expensive or impossible for us to obtain necessary legal protection. Also, the laws of some foreign countries may not protect our intellectual property to the

[Table of Contents](#)

same extent as do the laws of the United States. In addition to patent protection of intellectual property rights, we consider elements of our product designs and processes to be proprietary and confidential. We rely upon employee, consultant and vendor non-disclosure agreements and contractual provisions and a system of internal safeguards to protect our proprietary information. However, any of our registered or unregistered intellectual property rights may be challenged or exploited by others in the industry, which might harm our operating results.

The costs of compliance with environmental regulation and customers' standards of corporate citizenship could cause an increase in our operating costs.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of certain products. Such laws and regulations have been passed in several jurisdictions in which we operate. For example, the European Union has enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS") directive, which prohibits the use of certain substances in electronic equipment, and the Waste Electrical and Electronic Equipment ("WEEE") directive, which obligates parties that place electrical and electronic equipment onto the market in the EU to put a clearly identifiable mark on the equipment, register with and report to EU member countries regarding distribution of the equipment, and provide a mechanism to take-back and properly dispose of the equipment. Similar legislation may be enacted in other locations where we manufacture or sell our products. We will need to ensure that we comply with such laws and regulations as they are enacted, and that our component suppliers also timely comply with such laws and regulations. If we fail to timely comply with the legislation, our customers may refuse to purchase our products, which would have a materially adverse effect on our business, financial condition and operating results.

In connection with our compliance with such environmental laws and regulations, as well as our compliance with the specific standards of business conduct required by some of our customers and our commitment to sound corporate citizenship in all aspects of our business, we could incur substantial costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws or noncompliance with these standards of conduct, we could be subject to governmental fines, liability to our customers and damage to our reputation and corporate brand which could cause our financial condition or operating results to suffer.

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

Because we manufacture our products abroad, our operating costs are subject to fluctuations in foreign currency exchange rates. Further fluctuations in the exchange rate of the Thai Baht and of the Malaysian Ringgit may negatively impact our operating results.

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

If the U.S. dollar exhibits sustained weakness against most foreign currencies, the U.S. dollar equivalents of unhedged manufacturing costs could increase because a significant portion of our production costs are foreign-currency denominated. Conversely, there would not be an offsetting impact to revenues since revenues are substantially U.S. dollar denominated.

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

Table of Contents

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies, such as ODMs, that provide manufacturing services to our OEM customers. Because these subcontractors are generally not as well capitalized as our direct OEM customers, this subcontractor model exposes us to increased credit risks. Our agreements with our OEM customers may not permit us to increase our product prices to alleviate this increased credit risk. Additionally, as we attempt to expand our OEM and distribution channel sales into emerging economies such as Brazil, Russia, India and China, the customers in these regions may have relatively short operating histories, making it more difficult for us to accurately assess the associated credit risks. Any credit losses we may suffer as a result of these increased risks, or as a result of credit losses from any significant customer, would increase our operating costs, which may negatively impact our operating results.

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

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

- the timing of orders from and shipment of products to major customers;
- our product mix;
- changes in the prices of our products;
- manufacturing delays or interruptions;
- acceptance by customers of competing products in lieu of our products;
- variations in the cost of components for our products;
- limited availability of components that we obtain from a single or a limited number of suppliers;
- competition and consolidation in the data storage industry;
- seasonal and other fluctuations in demand for PCs often due to technological advances; and
- availability and rates of transportation.

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

We have made and continue to make a number of estimates and assumptions relating to our consolidated financial reporting. The highly technical nature of our products and the rapidly changing market conditions with which we deal means that actual results may differ significantly from our estimates and assumptions. These changes have

impacted our financial results in the past and may continue to do so in the future. Key estimates and assumptions for us include:

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

The market price of our common stock is volatile.

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

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

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

[Table of Contents](#)

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

Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio.

Our long-term investments consist of auction-rate securities totaling \$25 million as of September 26, 2008. The negative conditions in the global credit markets have prevented some investors from liquidating their holdings of auction-rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. If the credit market does not improve, auctions for our invested amounts may fail. If an auction fails for securities in which we have invested, we may be unable to liquidate some or all of our auction-rate securities at par should we need or desire to access the funds invested in those securities. In the event we need or desire to access these funds, we will not be able to do so until a future auction on these investments is successful or a buyer is found outside the auction process. If a buyer is found but is unwilling to purchase the investments at par, we may incur a loss. For example, during the quarter ended September 26, 2008, the market values of some of the auction-rate securities we owned were impacted by the macro-economic credit market conditions and as a result, we recognized \$3 million of other-than-temporary losses to mark the remaining investments to estimated market value. Further, rating downgrades of the security issuer or the third-parties insuring such investments may require us to adjust the carrying value of these investments through an additional impairment charge.

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

Our most recent evaluation resulted in our conclusion that as of June 27, 2008, in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, our internal control over financial reporting was effective. We believe that we currently have adequate internal control procedures in place for future periods; however, if our internal control over financial reporting is found to be ineffective, investors may lose confidence in the reliability of our financial statements, which may adversely affect our financial results or our stock price.

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

(c) The following table provides information about repurchases by us of our common stock during the quarter ended September 26, 2008:

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Program (1)</u>	<u>Maximum Value of Shares that May Yet be Purchased Under the Program(1)</u>
Jun. 28, 2008 — Jul. 25, 2008	2,860(2)	\$33.88	—	\$502,524,104
Jul. 26, 2008 — Aug. 22, 2008	1,239,956(2)	\$28.92	1,228,061	\$467,004,422
Aug. 23, 2008 — Sept. 26, 2008	4,532(2)	\$23.21	—	\$467,004,422
Total	<u>1,247,348</u>	\$28.92	<u>1,228,061</u>	\$467,004,422

(1) As announced on November 21, 2005, our Board of Directors authorized us to repurchase \$250 million of our common stock in open market transactions under a program during the five-year period from November 17, 2005 to November 17, 2010. On April 3, 2008, we announced the authorization of the repurchase of an additional \$500 million of our common stock under the program and an extension of the program period until March 31, 2013.

(2) Includes shares delivered by our employees to us to satisfy tax-withholding obligations upon the vesting of restricted stock.

Item 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of June 28, 2007, by and among Western Digital Corporation, State M Corporation and Komag, Incorporated (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 1-8703), as filed with the Securities and Exchange Commission on June 29, 2007)
3.1	Amended and Restated Certificate of Incorporation of Western Digital Corporation, as amended to date (Incorporated by reference to the Company's Quarterly Report on Form 10-Q (File No. 1-08703), as filed with the Securities and Exchange Commission on February 8, 2006)
3.2	Amended and Restated Bylaws of Western Digital Corporation, as amended effective as of November 5, 2007 (Incorporated by reference to the Company's Current Report on Form 8-K (File No. 1-08703), as filed with the Securities and Exchange Commission on November 8, 2007)
10.1.5	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement — Executives, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.6	Form of Notice of Grant of Stock Units and Stock Unit Award Agreement, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.7	Form of Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement — Executives, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.8	Form of Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement — Employees, under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan†*
10.1.9	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan Non-Employee Director Option Grant Program, as amended September 11, 2008, and Form of Notice of Grant of Stock Option and Option Agreement — Non-Employee Directors†*
10.1.10	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan Non-Employee Director Restricted Stock Unit Grant Program, as amended September 11, 2008†*
10.7	Western Digital Corporation Summary of Compensation Arrangements for Named Executive Officers and Directors†*
10.8	Amended and Restated Deferred Compensation Plan, effective September 11, 2008†*
10.10.6	Sixth Amendment to Western Digital Corporation 401(k) Plan, effective as of September 1, 2008†*
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†

† Exhibit filed with this Report.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

WESTERN DIGITAL CORPORATION

Registrant

/s/ Timothy M. Leyden

Timothy M. Leyden
Executive Vice President and Chief Financial
Officer (Principal Financial Officer)

/s/ Joseph R. Carrillo

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

Dated: October 31, 2008

EXHIBIT INDEX

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† Exhibit filed with this Report.

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

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Stock Units
and Stock Unit Award Agreement — Executives**

«fn» «mn» «ln»	Award Number:	«nbr»
«ad1»	Plan:	«pln»
«ad2»	ID:	«id»
«cty», «st» «z»		

Congratulations! Effective «optdt», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2004 Performance Incentive Plan (the “Plan”).¹

Vesting²:

Units	Vest Type	Full Vest
«sp1»	«vtpr1»	«vdp1»
«sp2»	«vtp2»	«vdp2»
«sp3»	«vtp3»	«vdp3»
«sp4»	«vtp4»	«vdp4»

Your stock unit award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Unit Awards – Executives (the “Standard Terms”) and the Plan. By accepting the award, you are agreeing to the terms of the award as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Company’s Stock Plans Administrator.

- ¹ The number of stock units subject to the award is subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).
- ² The stock units covered by the award are subject to forfeiture under Section 7 of the attached Standard Terms and Conditions for Stock Unit Awards.

Stock Unit Award (Executives) Sept. 2008



Western Digital Corporation 20511 Lake Forest Drive
Lake Forest, California 92630 Telephone 949 672-7000

**STANDARD TERMS AND CONDITIONS FOR
STOCK UNIT AWARDS — EXECUTIVES**
Amended and Restated 2004 Performance Incentive Plan

1. Stock Units Subject to 2004 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") Amended and Restated 2004 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4 or Section 7 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

The Stock Units are subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Unit Awards – Executives (these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Award Agreement

The Notice and these Standard Terms, together, constitute the Award Agreement with respect to the Award pursuant to Section 5.3 of the Plan.

3. Deferral of Stock Units

Notwithstanding anything to the contrary contained herein, the Participant may elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer the Stock Units subject to the Award under the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"), provided that any such election must be made in accordance with the provisions of the Deferred Compensation Plan. If the Participant makes such a deferral election, the Stock Units will be paid (to the extent vested) in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay for any payment on account of a separation from service if the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan. Whether or not the Participant elects to defer the Stock Units, any shares of Common Stock issued or delivered with respect to the Stock Units shall be charged against the applicable share limits of the Plan.

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice.

Stock Unit Award (Executives) Sept. 2008

An Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan. Without limiting the foregoing but subject to Sections 7.5, 7.6 and 7.7 of the Plan, to the extent that the Award is outstanding and otherwise unvested immediately prior to the occurrence of a Change in Control Event, the Award shall vest and become payable as to the outstanding and otherwise unvested Stock Units upon the occurrence of the Change in Control Event at the time provided in Section 6 below. Notwithstanding the foregoing or anything in this Award Agreement or the Plan, if the Participant has elected to defer the Stock Units as provided in Section 3 and the event giving rise to any accelerated vesting pursuant to Section 7 of the Plan is not also a “change in the ownership or effective control” of the Corporation or a “change in the ownership of a substantial portion of the assets” of the Corporation for purposes of Section 409A of the Code, then payment with respect to such deferred Stock Units that vest in connection with such event shall be made in accordance with the Participant’s deferral election and the provisions of the Deferred Compensation Plan. For purposes of clarity, any such deferred Stock Units that vest prior to such acceleration event shall be paid in accordance with the Participant’s deferral election and the provisions of the Deferred Compensation Plan.

The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant’s Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. If the Participant has not made a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. If the Participant has made a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be credited under, and paid in an equivalent number of shares of Common Stock in accordance with the payment provisions of, the Deferred Compensation Plan and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

6. Timing and Manner of Payment of Stock Units

Except as provided in Section 3 or 5 above, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4 or Section 7 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation’s obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 7 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant’s Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the Fair Market Value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

Stock Unit Award (Executives) Sept. 2008

7. Termination of Employment

Subject to earlier vesting as provided in Section 4 hereof, if the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Stock Units shall be forfeited to the Corporation to the extent such Stock Units have not become vested upon the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's beneficiary as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date.

8. Adjustments

Subject to Section 19, the Administrator may accelerate the vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator will make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which dividend equivalents are paid pursuant to Section 5.

9. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion, direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the minimum applicable withholding rates. Any deferred Stock Units shall be subject to the tax withholding provisions of the Deferred Compensation Plan.

10. Nontransferability

Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated, encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

Stock Unit Award (Executives) Sept. 2008

11. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

12. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

13. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 13.

14. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 14).

15. Governing Law

This Award Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

16. Severability

If the arbitrator selected in accordance with Section 14 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

17. Entire Agreement

This Award Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

18. Section Headings

The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Construction

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

Stock Unit Award (Executives) Sept. 2008



Western Digital Corporation
 ID: 95-2657125
 P.O. Box 19665
 Lake Forest, CA 92630-7741
 (949) 672-7000 x 27985/27986

**Notice of Grant of Stock Units
 and Stock Unit Award Agreement**

«fn» «mn» «ln»	Award Number:	«nbr»
«ad1»	Plan:	«pln»
«ad2»	ID:	«id»
«cty», «st» «z»		

Congratulations! Effective «optdt», you have been granted stock units of Western Digital Corporation. These stock units were granted under the 2004 Performance Incentive Plan (the "Plan").¹

Vesting²:

Units	Vest Type	Full Vest
«sp1»	«vtpr1»	«vdp1»
«sp2»	«vtp2»	«vdp2»
«sp3»	«vtp3»	«vdp3»
«sp4»	«vtp4»	«vdp4»

Your stock unit award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Stock Unit Awards (the "Standard Terms") and the Plan. By accepting the award, you are agreeing to the terms of the award as set forth in those documents. You should read the Plan, the Prospectus for the Plan, and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan, the Prospectus for the Plan, and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Company's Stock Plans Administrator.

¹ The number of stock units subject to the award is subject to adjustment under Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).

² The stock units covered by the award are subject to forfeiture under Section 7 of the attached Standard Terms and Conditions for Stock Unit Awards.



Western Digital Corporation 20511 Lake Forest Drive
Lake Forest, California 92630 Telephone 949 672-7000

**STANDARD TERMS AND CONDITIONS FOR
STOCK UNIT AWARDS**
Amended and Restated 2004 Performance Incentive Plan

1. Stock Units Subject to 2004 Performance Incentive Plan

The Stock Unit Award (the "Award") referred to in the attached Notice of Grant of Stock Units and Stock Unit Award Agreement (the "Notice") was awarded under Western Digital Corporation's (the "Corporation's") Amended and Restated 2004 Performance Incentive Plan (the "Plan"). Each stock unit covered by the Award ("Stock Unit") is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan). The holder of the Stock Units is referred to herein as the "Participant." Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to the Participant if Stock Units held by such Participant vest pursuant to Section 4 or Section 7 and shall not be treated as property or as a trust fund of any kind. Stock Units granted to the Participant shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Participant (a "Stock Unit Account").

The Stock Units are subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Stock Unit Awards (these "Standard Terms"), and the Plan. To the extent any information in the Notice, the prospectus for the Plan, or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Award Agreement

The Notice and these Standard Terms, together, constitute the Award Agreement with respect to the Award pursuant to Section 5.3 of the Plan.

3. Deferral of Stock Units

Notwithstanding anything to the contrary contained herein, the Administrator may determine that the Participant is eligible to defer the Stock Units subject to the Award (such determination to be made by delivery to the Participant of a deferral election form). In the event that the Administrator makes such a determination, the Participant may elect, on a form and in a manner provided by the Corporation, to defer the Stock Units subject to the Award under the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"), provided that any such election must be made in accordance with the provisions of the Deferred Compensation Plan. If the Participant makes such a deferral election, the Stock Units will be paid (to the extent vested) in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay for any payment on account of a separation from service if the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan. If the Participant is not permitted to defer the Stock Units, the Stock Units will be paid in accordance with this Award Agreement without regard to this Section 3.

Stock Unit Award (Employees) Sept. 2008

4. Vesting

Except as otherwise provided in this Award Agreement, the Award shall vest and become nonforfeitable in percentage installments of the aggregate number of Stock Units as set forth in the Notice.

An Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan; provided, however, that, notwithstanding anything to the contrary in this Award Agreement or the Plan, if the Participant has elected to defer the Stock Units as provided in Section 3 and the event giving rise to any accelerated vesting pursuant to Section 7 of the Plan is not also a “change in the ownership or effective control” of the Corporation or a “change in the ownership of a substantial portion of the assets” of the Corporation for purposes of Section 409A of the Code, then payment with respect to such deferred Stock Units that vest in connection with such event shall be made in accordance with the Participant’s deferral election and the provisions of the Deferred Compensation Plan. For purposes of clarity, any such deferred Stock Units that vest prior to such acceleration event shall be paid in accordance with the Participant’s deferral election and the provisions of the Deferred Compensation Plan.

The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

5. Dividend Equivalent Rights Distributions

As of any date that the Corporation pays an ordinary cash dividend on its Common Stock, the Corporation shall credit the Participant’s Stock Unit Account with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Corporation on its Common Stock on such date, multiplied by (ii) the number of Stock Units remaining subject to the Award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. The Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. Notwithstanding the preceding sentence, if the Participant is permitted to make, and has made, a deferral election with respect to the Stock Units, then the Stock Units credited pursuant to the foregoing provisions of this Section 5 shall be credited under, and paid in an equivalent number of shares of Common Stock in accordance with the payment provisions of, the Deferred Compensation Plan and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

6. Timing and Manner of Payment of Stock Units

Except as provided in Section 3 or 5 above, on or within fifteen (15) business days following the vesting of any Stock Units granted (or credited pursuant to Section 5) to the Participant (whether pursuant to Section 4 or Section 7 hereof or Section 7 of the Plan), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date (including any Stock Units credited as dividend equivalents pursuant to Section 5 with respect to the Stock Units that vest), subject to adjustment as provided in Section 7 of the Plan. The Corporation’s obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the condition precedent that the Participant (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) delivers to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. The Participant shall have no further rights with respect to any Stock Units that are paid pursuant to this Section 6 or that are terminated pursuant to Section 7 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Participant’s Stock Unit Account upon the date of such payment or termination. The Corporation may, in its sole discretion, settle any Stock Units credited as dividend equivalents by a cash payment equal to the Fair Market Value of a share of Common Stock on the date of payment (as opposed to payment in the form of shares of Common Stock).

Stock Unit Award (Employees) Sept. 2008

7. Termination of Employment

Subject to earlier vesting as provided in Section 4 hereof, if the Participant ceases to be employed by or to provide services to the Corporation or its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Stock Units shall be forfeited to the Corporation to the extent such Stock Units have not become vested upon the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a portion of the otherwise unvested Stock Units shall automatically become fully vested as of such date of death as set forth in the next sentence, and shall be paid to the Participant's beneficiary as provided in Section 6 above. In the event the date of the Participant's death is at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, the number of Stock Units that shall become vested on the date of the Participant's death equals: (a) the number of Stock Units that would have vested on the next scheduled vesting date applicable to the Award (as set forth in the Notice) (the "Next Scheduled Vesting Date") had the Participant continued to be employed through such date, multiplied by (b) a fraction (not greater than one), the numerator of which is the number of calendar days following the last scheduled vesting date applicable to the Award as set forth in the Notice (or, if there was no such prior vesting date applicable to the Award, the date of grant of the Stock Units (the "Measurement Date") through and including the date of the Participant's death, and the denominator of which is the total number of calendar days in the period beginning with the day after the Measurement Date and ending with the Next Scheduled Vesting Date.

8. Adjustments

Subject to Section 19, the Administrator may accelerate the vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator will make adjustments if appropriate in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend for which dividend equivalents are paid pursuant to Section 5.

9. Withholding Taxes

Upon or in connection with the vesting of the Stock Units, the payment of dividend equivalents and/or the distribution of shares of Common Stock in respect of the Stock Units, the Corporation (or the Subsidiary last employing the Participant) shall have the right at its option to (a) require the Participant to pay or provide for payment in cash of the amount of any taxes that the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution, or (b) deduct from any amount payable to the Participant the amount of any taxes which the Corporation or the Subsidiary may be required to withhold with respect to such vesting, payment and/or distribution. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Award Agreement, the Administrator may, in its sole discretion, direct the Corporation or the Subsidiary to reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (with the "fair market value" of such shares determined in accordance with the applicable provisions of the Plan), to satisfy such withholding obligation at the minimum applicable withholding rates. Any deferred Stock Units shall be subject to the tax withholding provisions of the Deferred Compensation Plan.

10. Nontransferability

Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated, encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

Stock Unit Award (Employees) Sept. 2008

11. No Right to Employment

Nothing contained in this Award Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

12. Rights as a Stockholder

Subject to the provisions of the Plan, the Notice and these Standard Terms, the Participant shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5 with respect to dividend equivalent rights) and no voting rights with respect to Stock Units awarded to the Participant and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

13. Notices

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 13.

14. Arbitration

Any controversy arising out of or relating to this Award Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Award Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Award, the Participant consents to all of the terms and conditions of this Award Agreement (including, without limitation, this Section 14).

15. Governing Law

This Award Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

16. Severability

If the arbitrator selected in accordance with Section 14 or a court of competent jurisdiction determines that any portion of this Award Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Award Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Award Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Award Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

17. Entire Agreement

This Award Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Award Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

18. Section Headings

The section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

19. Construction

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

Stock Unit Award (Employees) Sept. 2008

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Long-Term Cash Award
and Long-Term Cash Award Agreement — Executives**

«fn» «mn» «ln»
«ad1»
«ad2»
«cty», «st» «z»

Award Number:
Plan:
ID:

«nbr»
2004 Performance Incentive Plan
«id»

Congratulations! Effective [_____, 20__], you have been granted a Long-Term Cash Award (a “**Cash Award**”) of Western Digital Corporation. This Cash Award was granted under the 2004 Performance Incentive Plan (the “**Plan**”).

Target Cash Award: \$_____.

Measurement Period covered by grant: _____ to _____ (“Measurement Period”).

Your Cash Award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Long-Term Cash Award – Executives (the “**Standard Terms**”) and the Plan. By accepting the award, you are agreeing to the terms and provisions set forth in those documents. You should read the Plan and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Law Department.

Long-Term Cash Award (Executives) Sept. 2008

**STANDARD TERMS AND CONDITIONS FOR
LONG-TERM CASH AWARD — EXECUTIVES**

1. Long-Term Cash Award Subject to 2004 Performance Incentive Plan

The Long-Term Cash Award (the “**Cash Award**”) referred to in the attached Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement – Executives (the “**Notice**”) is awarded under the Western Digital Corporation (the “**Corporation**”) Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The Cash Award is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Long-Term Cash Award — Executives (these “**Standard Terms**”), and the Plan. To the extent any information in the Notice or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, then the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The Notice and these Standard Terms, together, constitute the “**Agreement**” with respect to the Cash Award pursuant to Section 5.3 of the Plan. The holder of the Cash Award is referred to herein as the “**Participant**.” Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Performance Goals

The Compensation Committee of the Board of Directors of the Corporation (the “**Committee**”) shall set one or more objective performance goals for Participant for the Measurement Period, in accordance with Section 5.2 of the Plan (“**Performance Goals**”). Upon determination by the Committee of the Performance Goals, the Performance Goals for the Measurement Period shall be attached as Exhibit A hereto.

3. Determination and Payment of Cash Award Payment Amount

Within a reasonable period of time following the end of the Measurement Period, the Committee shall determine, in accordance with the Performance Goals and related criteria and methodology established by the Committee described on Exhibit A hereto, the extent to which the Performance Goals have been achieved and authorize the cash payment of an award, if any, to Participant (the “**Cash Award Payment Amount**”). The Cash Award Payment Amount shall equal the dollar amount of the Cash Award set forth on the Notice of Grant of Cash Performance Award (“**Target Cash Award**”) multiplied by a percentage that shall be determined by the Committee in accordance with the Performance Goals and related criteria and methodology described on Exhibit A hereto (the “**Cash Award Performance Percentage**”), subject to adjustment as described in this Agreement. Subject to Sections 5, 6 and 13 below, payment of the Cash Award Payment Amount shall be made to Participant or, in the event of Participant’s death, to Participant’s legal representative, as soon as practicable after the certification of awards by the Committee (but no later than seventy-four (74) days following completion of the Measurement Period), net of amounts withheld in satisfaction of the requirements of Section 8(b) below. **THE CASH AWARD PERFORMANCE PERCENTAGE AND THE CASH AWARD PAYMENT AMOUNT ARE SUBJECT TO ADJUSTMENT (WHICH MAY BE A REDUCTION) AS PROVIDED IN THIS AGREEMENT.**

4. Termination at Payment of Cash Award

Unless terminated earlier under Section 5 below, a Participant’s rights under this Agreement with respect to the Cash Award awarded under this Agreement shall terminate at the time any Cash Award Payment Amount is paid to Participant or at such time that the Cash Award is no longer eligible to become paid, as determined by the Administrator or the Committee.

5. Termination of Employment; Change in Control Events

(a) Termination of Employment. Subject to Section 7.2 or 7.3 of the Plan and subject to adjustment as provided in Section 6 hereof, if the Participant ceases to be employed by or to provide services to the Corporation and its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Cash Award and any right to receive a Cash Award Payment Amount shall terminate to the extent a Cash Award Payment Amount has not yet been determined by the Committee as described in Section 3, as of the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a pro-rata portion of the Cash Award Payment Amount shall be paid (equal to the Cash Award Payment Amount that the Participant would have been entitled to had he or she continued to be employed through the applicable payment date, multiplied by a fraction the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries prior to the Participant's death and the denominator of which is the total number of days in the Measurement Period) to the Participant's beneficiary at the same time as Cash Award Payment Amounts are paid generally with respect to the Measurement Period. The Administrator shall be the sole judge, for purposes of the Cash Award, as to whether the Participant continues to render services to the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

(b) Change in Control Events. Notwithstanding Section 5(a), upon the occurrence of a Change in Control Event (as defined in Section 7.3 of the Plan), subject to Section 6 below and Participant then being an Eligible Person (or having died during the Measurement Period while employed by or providing services to the Corporation or any of its Subsidiaries), the Cash Award Payment Amount, based on a Cash Award Performance Percentage of 100% (or such greater percentage as the Committee, in its sole discretion, may deem appropriate in the circumstances, and subject to pro-rata as provided in Section 5(a) in the event the Participant had died during the Measurement Period and prior to the Change in Control Event), multiplied by the Target Cash Award shall become payable hereunder to Participant. Such Cash Award Payment Amount (after giving effect to the foregoing sentence) shall be paid, net of amounts withheld in satisfaction of the requirements of Section 8(b) below, to Participant or, in the event of Participant's death, to Participant's legal representative, as soon as practicable following (and in all events no more than seventy-four (74) days after) the Change in Control Event; provided, however, that if the Participant has made a deferral election with respect to such payment pursuant to Section 13(a) that is then in effect, such payment shall be made in accordance with the terms of the Corporation's Amended and Restated Deferred Compensation Plan.

6. Adjustments; Performance-Based Compensation

(a) Adjustments. In determining the Cash Award Performance Percentage and the Cash Award Payment Amount with respect to the Measurement Period, the Committee may adjust the Performance Goals previously determined by the Committee to the extent permitted pursuant to Section 5.2.2 of the Plan.

(b) Reduction of Cash Award Payment Amount. Notwithstanding Section 3 or any other term of this Agreement, the Committee may in its sole and absolute discretion reduce the Cash Award Payment Amount, if the Committee determines that such reduction is necessary or advisable due to current business conditions or for any other reason, including the Committee's judgment that the Performance Goals have become an inappropriate measure of achievement, a change in the employment status, position or duties of the Participant, unsatisfactory performance of the Participant, or based on the Participant's services and contributions for the Measurement Period.

(c) Performance-Based Compensation. Cash Awards are intended to be Performance-Based Awards based on Business Criteria, as described in Section 5.2 of the Plan. Compensation attributable to the Agreement is intended to constitute qualified performance-based compensation under Section 162(m) of the Code and the regulations thereunder. This Agreement shall be construed and administered by the Committee in a manner consistent with this intent.

Long-Term Cash Award (Executives) Sept. 2008

7. Acknowledgment of Nature of Plan and Cash Awards

In accepting the Cash Award, Participant acknowledges that:

- (a) the Plan is established voluntarily by the Corporation, it is discretionary in nature and may be modified, amended, suspended or terminated by the Corporation at any time, as provided in the Plan;
- (b) the Award of this Cash Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Cash Awards, or benefits in lieu of Cash Awards even if Cash Awards have been awarded repeatedly in the past;
- (c) all decisions with respect to future awards, if any, will be at the sole discretion of the Corporation; and
- (d) Participant's participation in the Plan is voluntary.

8. Taxes

(a) Responsibility for Tax-Related Items. Regardless of any action the Corporation or Participant's actual employer takes with respect to any or all income tax (including federal, state and local taxes), social insurance, payroll tax or other tax-related withholding ("**Tax Related Items**"), Participant acknowledges that the ultimate liability for all Tax Related Items legally due by Participant is and remains Participant's responsibility and that the Corporation and/or the Participant's actual employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Cash Award, including the grant of the Cash Award, the determination of the Cash Award Payment Amount or the payment of the Cash Award Payment Amount; and (ii) do not commit to structure the terms of the grant or any aspect of the Cash Award to reduce or eliminate the Participant's liability for Tax Related Items.

(b) Withholding Taxes. The Corporation (or any of its Subsidiaries last employing the Participant) shall be entitled to withhold from any Cash Award Payment Amount an amount necessary to satisfy any withholding obligations of the Corporation or any Subsidiary with respect to such payment.

9. Nontransferability

Prior to the time that a Cash Award Payment Amount is paid to Participant, no Cash Award or right to receive a Cash Award Payment Amount, any interest therein, nor any amount payable in respect thereof, may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) subject to Section 5(a), transfers by will or the laws of descent and distribution.

10. No Right to Employment

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

11. Arbitration

Any controversy arising out of or relating to this Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Cash Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("**JAMS**"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the

Long-Term Cash Award (Executives) Sept. 2008

American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Cash Award, the Participant consents to all of the terms and conditions of this Agreement (including, without limitation, this Section 11).

12. Governing Law

This Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

13. Deferrals; Construction

(a) Notwithstanding anything to the contrary contained herein, the Participant may elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer receipt of any or all Cash Award Payment Amounts that become payable pursuant to this Agreement under the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"), provided that any such election must be made in accordance with the provisions of the Deferred Compensation Plan. If the Participant makes such a deferral election, the deferred amounts will be paid in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay for any payment on account of a separation from service if the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

(b) It is intended that the terms of the Cash Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

14. Severability

If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

15. Entire Agreement

This Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision

Long-Term Cash Award (Executives) Sept. 2008

hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

16. Section Headings

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

Long-Term Cash Award (Executives) Sept. 2008

EXHIBIT A
LONG-TERM CASH AWARD — EXECUTIVES
Performance Goals

[Performance Goals shall be expressed in terms of one or more of the following corporate measures (or such other measures that may be defined as “Business Criteria” pursuant to the Plan): earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. Each such Performance Goal may be expressed on an absolute and/or relative basis, may employ comparisons with past performance of the Corporation (including one or more divisions) and/or the current or past performance of other companies, and in the case of earnings-based measures, may employ comparisons to capital, stockholders’ equity and shares outstanding.]

Western®
Digital

Western Digital Corporation

ID: 95-2657125
P.O. Box 19665
Lake Forest, CA 92630-7741
(949) 672-7000 x 27985/27986

**Notice of Grant of Long-Term Cash Award
and Long-Term Cash Award Agreement — Employees**

«fn» «mn» «ln»
«ad1»
«ad2»
«cty», «st» «z»

Award Number:
Plan:
ID:

«nbr»
2004 Performance Incentive Plan
«id»

Congratulations! Effective [_____, 20__], you have been granted a Long-Term Cash Award (a “**Cash Award**”) of Western Digital Corporation. This Cash Award was granted under the 2004 Performance Incentive Plan (the “**Plan**”).

Target Cash Award: \$_____.

Measurement Period covered by grant: _____ to _____ (“Measurement Period”).

Your Cash Award is subject to the terms and conditions of this Notice, the attached Standard Terms and Conditions for Long-Term Cash Award – Employees (the “**Standard Terms**”) and the Plan. By accepting the award, you are agreeing to the terms and provisions set forth in those documents. You should read the Plan and the Standard Terms. The Standard Terms and the Plan are each incorporated into (made a part of) this Notice by this reference. You do not have to accept your award. If you do not agree to the terms of your award, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

A copy of the Plan and the Standard Terms have been provided to you. If you need another copy of these documents, or if you would like to confirm that you have the most recent version, please contact the Law Department.

Long-Term Cash Award (Employees) Sept. 2008

**STANDARD TERMS AND CONDITIONS FOR
LONG-TERM CASH AWARD — EMPLOYEES**

1. Long-Term Cash Award Subject to 2004 Performance Incentive Plan

The Long-Term Cash Award (the “**Cash Award**”) referred to in the attached Notice of Grant of Long-Term Cash Award and Long-Term Cash Award Agreement – Employees (the “**Notice**”) is awarded under the Western Digital Corporation (the “**Corporation**”) Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The Cash Award is subject to the terms and provisions of the Notice, these Standard Terms and Conditions for Long-Term Cash Award — Employees (these “**Standard Terms**”), and the Plan. To the extent any information in the Notice or other information provided by the Corporation conflicts with the Plan and/or these Standard Terms, then the Plan or these Standard Terms, as applicable, shall control. To the extent any terms and provisions in these Standard Terms conflict with the terms and provisions of the Plan, the Plan shall control. The Notice and these Standard Terms, together, constitute the “**Agreement**” with respect to the Cash Award pursuant to Section 5.3 of the Plan. The holder of the Cash Award is referred to herein as the “**Participant**.” Capitalized terms not defined herein have the meanings set forth in the Plan.

2. Performance Goals

The Compensation Committee of the Board of Directors of the Corporation (the “**Committee**”) shall set one or more objective performance goals for Participant for the Measurement Period, in accordance with Section 5.2 of the Plan (“**Performance Goals**”). Upon determination by the Committee of the Performance Goals, the Performance Goals for the Measurement Period shall be attached as Exhibit A hereto.

3. Determination and Payment of Cash Award Payment Amount

Within a reasonable period of time following the end of the Measurement Period, the Committee shall determine, in accordance with the Performance Goals and related criteria and methodology established by the Committee described on Exhibit A hereto, the extent to which the Performance Goals have been achieved and authorize the cash payment of an award, if any, to Participant (the “**Cash Award Payment Amount**”). The Cash Award Payment Amount shall equal the dollar amount of the Cash Award set forth on the Notice of Grant of Cash Performance Award (“**Target Cash Award**”) multiplied by a percentage that shall be determined by the Committee in accordance with the Performance Goals and related criteria and methodology described on Exhibit A hereto (the “**Cash Award Performance Percentage**”), subject to adjustment as described in this Agreement. Subject to Sections 5, 6 and 13 below, payment of the Cash Award Payment Amount shall be made to Participant or, in the event of Participant’s death, to Participant’s beneficiary, as soon as practicable after the certification of awards by the Committee (but no later than seventy-four (74) days following completion of the Measurement Period), net of amounts withheld in satisfaction of the requirements of Section 8(b) below. **THE CASH AWARD PERFORMANCE PERCENTAGE AND THE CASH AWARD PAYMENT AMOUNT ARE SUBJECT TO ADJUSTMENT (WHICH MAY BE A REDUCTION) AS PROVIDED IN THIS AGREEMENT.**

4. Termination at Payment of Cash Award

Unless terminated earlier under Section 5 below, a Participant’s rights under this Agreement with respect to the Cash Award awarded under this Agreement shall terminate at the time any Cash Award Payment Amount is paid to Participant or at such time that the Cash Award is no longer eligible to become paid, as determined by the Administrator or the Committee.

5. Termination of Employment

Subject to Section 7.2 or 7.3 of the Plan and subject to adjustment as provided in Section 6 hereof, if the Participant ceases to be employed by or to provide services to the Corporation and its Subsidiaries (regardless of the reason for such termination, whether with or without cause, voluntarily or involuntarily, or due to disability), the Participant's Cash Award and any right to receive a Cash Award Payment Amount shall terminate to the extent a Cash Award Payment Amount has not yet been determined by the Committee as described in Section 3, as of the date the Participant's employment or services terminate; provided, however, that in the event of the Participant's death at a time when the Participant is employed by or providing services to the Corporation or any of its Subsidiaries, a pro-rata portion of the Cash Award Payment Amount shall be paid (equal to the Cash Award Payment Amount that the Participant would have been entitled to had he or she continued to be employed through the applicable payment date, multiplied by a fraction the numerator of which is the number of days in the Measurement Period that the Participant was employed by the Corporation or one of its Subsidiaries prior to the Participant's death and the denominator of which is the total number of days in the Measurement Period) to the Participant's beneficiary at the same time as Cash Award Payment Amounts are paid generally with respect to the Measurement Period. The Administrator shall be the sole judge, for purposes of the Cash Award, as to whether the Participant continues to render services to the Corporation or its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6. Adjustments; Performance-Based Compensation

(a) Adjustments. In determining the Cash Award Performance Percentage and the Cash Award Payment Amount with respect to the Measurement Period, the Committee may adjust the Performance Goals previously determined by the Committee to the extent permitted pursuant to Section 5.2.2 of the Plan.

(b) Reduction of Cash Award Payment Amount. Notwithstanding Section 3 or any other term of this Agreement, the Committee may in its sole and absolute discretion reduce the Cash Award Payment Amount, if the Committee determines that such reduction is necessary or advisable due to current business conditions or for any other reason, including the Committee's judgment that the Performance Goals have become an inappropriate measure of achievement, a change in the employment status, position or duties of the Participant, unsatisfactory performance of the Participant, or based on the Participant's services and contributions for the Measurement Period.

7. Acknowledgment of Nature of Plan and Cash Awards

In accepting the Cash Award, Participant acknowledges that:

(a) the Plan is established voluntarily by the Corporation, it is discretionary in nature and may be modified, amended, suspended or terminated by the Corporation at any time, as provided in the Plan;

(b) the Award of this Cash Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Cash Awards, or benefits in lieu of Cash Awards even if Cash Awards have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Corporation; and

(d) Participant's participation in the Plan is voluntary.

8. Taxes

(a) Responsibility for Tax-Related Items. Regardless of any action the Corporation or Participant's actual employer takes with respect to any or all income tax (including federal, state and local taxes), social insurance, payroll tax or other tax-related withholding ("**Tax Related Items**"), Participant acknowledges that the ultimate liability for all Tax Related Items legally due by Participant is and remains Participant's responsibility and that the Corporation and/or the Participant's actual employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Cash Award, including the grant of the Cash Award, the determination of the Cash Award Payment Amount or the payment of the Cash Award Payment

Long-Term Cash Award (Employees) Sept. 2008

Amount; and (ii) do not commit to structure the terms of the grant or any aspect of the Cash Award to reduce or eliminate the Participant's liability for Tax Related Items.

(b) Withholding Taxes. The Corporation (or any of its Subsidiaries last employing the Participant) shall be entitled to withhold from any Cash Award Payment Amount an amount necessary to satisfy any withholding obligations of the Corporation or any Subsidiary with respect to such payment.

9. Nontransferability

Prior to the time that a Cash Award Payment Amount is paid to Participant, no Cash Award or right to receive a Cash Award Payment Amount, any interest therein, nor any amount payable in respect thereof, may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) subject to Section 5, transfers by will or the laws of descent and distribution.

10. No Right to Employment

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Participant's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

11. Arbitration

Any controversy arising out of or relating to this Agreement (including these Standard Terms) and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy arising out of or related to the Cash Award, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Cash Award, the Participant consents to all of the terms and conditions of this Agreement (including, without limitation, this Section 11).

12. Governing Law

This Agreement, including these Standard Terms, shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

Long-Term Cash Award (Employees) Sept. 2008

13. Deferrals; Construction

(a) Notwithstanding anything to the contrary contained herein, the Participant may, if the Participant is eligible to participate in the Corporation's Deferred Compensation Plan (the "Deferred Compensation Plan"), elect, on a form and in a manner provided by the Corporation and by any applicable deferral election deadline, to defer receipt of any or all Cash Award Payment Amounts that become payable pursuant to this Agreement under the Deferred Compensation Plan, provided that any such election must be made in accordance with the provisions of the Deferred Compensation Plan. If the Participant makes such a deferral election, the deferred amounts will be paid in accordance with the payment provisions of the Deferred Compensation Plan (including without limitation the provisions requiring a six-month payment delay for any payment on account of a separation from service if the Participant is a "specified employee" for purposes of Section 409A of the Code), which are incorporated herein by this reference, and any applicable distribution election made by the Participant under and in accordance with the rules of the Deferred Compensation Plan.

(b) It is intended that the terms of the Cash Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Award Agreement shall be construed and interpreted consistent with that intent.

14. Severability

If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Agreement (including these Standard Terms) or the Plan is in violation of any statute or public policy, then only the portions of this Agreement or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Agreement and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Agreement and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

15. Entire Agreement

This Agreement (including these Standard Terms) and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

16. Section Headings

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

EXHIBIT A

LONG-TERM CASH AWARD — EMPLOYEES
Performance Goals

[Performance Goals shall be expressed in terms of one or more of the following corporate measures (or such other measures that may be defined as “Business Criteria” pursuant to the Plan): earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. Each such Performance Goal may be expressed on an absolute and/or relative basis, may employ comparisons with past performance of the Corporation (including one or more divisions) and/or the current or past performance of other companies, and in the case of earnings-based measures, may employ comparisons to capital, stockholders’ equity and shares outstanding.]

**WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED 2004 PERFORMANCE INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR OPTION GRANT PROGRAM**

1. Establishment; Purpose. This Non-Employee Director Option Grant Program (this “**Program**”) is adopted under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). The purpose of this Program is to promote the success of the Corporation and the interests of its stockholders by providing members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries (“**Non-Employee Directors**”) an opportunity to acquire an ownership interest in the Corporation and more closely aligning the interests of Non-Employee Directors and stockholders. Except as otherwise expressly provided herein, the provisions of the Plan shall govern all awards made pursuant to this Program. Capitalized terms are defined in the Plan if not defined herein.

2. Participation. Awards under this Program shall be made only to Non-Employee Directors, shall be evidenced by award agreements substantially in the form of Exhibit 1 hereto and shall be further subject to such other terms and conditions set forth therein.

3. Option Grants.

3.1 Initial Award for New Non-Employee Directors.

3.1.1 Upon or as soon as reasonably practicable after first being appointed or elected to the Board and subject to approval by the Board or the Administrator, a Non-Employee Director who has not previously served on the Board shall be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant equal to \$300,000 (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option); provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date such Non-Employee Director is first appointed or elected to the Board.

3.1.2 Each member of the Board who was previously an employee of the Corporation or any of its Subsidiaries who first becomes a Non-Employee Director by virtue of retiring or otherwise ceasing to be employed by the Corporation or any of its Subsidiaries shall, upon or as soon as reasonably practicable after the date that he or she is first a Non-Employee Director, be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option) of (i) \$125,000, divided by (ii) 365, multiplied by (iii) the number of days from

the date such person is first a Non-Employee Director to the anticipated date of the Corporation's next annual meeting of stockholders; provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date such person first becomes a Non-Employee Director.

3.2 Subsequent Awards. Immediately following the Corporation's regular annual meeting of stockholders in each year during the term of the Plan commencing in 2008 and subject to approval by the Board or the Administrator, each Non-Employee Director then in office shall be granted a nonqualified stock option to purchase a number of shares of Common Stock that produces an approximate value for the option grant equal to \$125,000 (using a Black-Scholes valuation as of the time of grant as determined in consultation with Company management and based on the Fair Market Value of a share of Common Stock on the trading day immediately preceding the grant date of the stock option); provided, however, that the Board or the Administrator, in its discretion, may at the time of grant of the award increase or decrease the number of shares of Common Stock otherwise subject to the stock option. The date of grant of each such stock option will be the date on which such stock option is approved by the Board or the Administrator, which date shall coincide to the extent practicable with the date of the annual meeting of stockholders. An individual who was previously a member of the Board, who then ceased to be a member of the Board for any reason, and who then again becomes a Non-Employee Director shall thereupon again become eligible to be granted stock options under this Section 3.2.

3.3 Option Price. The purchase price per share of the Common Stock covered by each option granted pursuant to this Section 3 shall be 100 percent of the Fair Market Value of a share of Common Stock on the date of grant of the option (the "**Award Date**"). The exercise price of any option granted under this Section 3 shall be paid in full at the time of each purchase in cash or by check, in shares of Common Stock valued at their fair market value on the date of exercise of the option, or partly in such shares and partly in cash, or in any other manner authorized by the Administrator pursuant to Section 5.5 of the Plan; provided that any shares used in payment shall have been owned by the Non-Employee Director for at least six months prior to the date of exercise.

3.4 Transfer Restrictions. Options granted pursuant to this Section 3 shall be subject to the transfer restrictions set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not approved any transfer exceptions with respect to the options in accordance with Section 5.7.2 of the Plan.

4. Option Period and Exercisability. Each option granted under Section 3 above and all rights or obligations under this Program with respect to a particular option shall expire seven years after the date of grant of such option and shall be subject to earlier termination as provided below. Subject to Sections 5, 6 and 7 hereof, each option granted under Section 3 shall become exercisable as to 25% of the total number of shares subject thereto on the first anniversary of the

date of grant of the option and as to an additional 6.25% of the total number of shares subject thereto at the end of each of the next 12 three-month periods thereafter.

5. Termination of Directorship. Subject to the maximum seven-year term of the option and subject to earlier termination pursuant to Section 7 below, if a Non-Employee Director ceases to be a member of the Board for any reason, the following rules shall apply with respect to any option granted to the Non-Employee Director pursuant to Section 3 above (the last day that the Director is a member of the Board is, except as otherwise provided below, referred to as the Director's "Severance Date"):

- other than as expressly provided below in this Section 5, (a) the Non-Employee Director will have until the date that is one (1) year after his or her Severance Date to exercise such option (or portion thereof) to the extent that it was vested on the Severance Date, (b) such option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) such option, to the extent exercisable for the one-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the one-year period;
- if the Non-Employee Director ceases to be a member of the Board due to his or her Retirement (as defined below) and the Non-Employee Director has served as a member of the Board of Directors for at least twelve (12) continuous months following the grant date of such option, (a) the Non-Employee Director will have until the date that is three (3) years after his or her Severance Date to exercise such option, (b) such option, to the extent not otherwise vested on the Severance Date, shall automatically become fully vested as of the Severance Date, and (c) such option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period;

provided, however, that if the Board or the Administrator determines that any such Non-Employee Director who has Retired renders services as an employee, director, consultant, contractor or otherwise to a competitor of the Corporation or one of its Subsidiaries at any time during such three-year period, then any such option shall immediately terminate to the extent not exercised as of the date the Board or the Administrator makes such determination. In addition, in such event the Corporation shall have the right to recover any profits realized by such Retired Non-Employee Director as a result of any exercise of such option during the six-month period prior to the date such Non-Employee Director commenced providing such services to a competitor.

For purposes of this Section 5, the term "**Retirement**" (which term shall include "Retired") shall mean the cessation of a director's services as a member of the Board due to his or her voluntary resignation at any time after such director has served as a member of the Board for at least forty-eight (48) months.

Notwithstanding any other provision of this Section 5, if a Non-Employee Director ceases to be a member of the Board (regardless of the reason) but, immediately thereafter, is

employed by the Corporation or one of its Subsidiaries, such director's Severance Date shall not be the date the director ceases to be a member of the Board but instead shall be the last day that the director is either or both (1) a member of the Board and/or (2) employed by the Corporation or a Subsidiary.

6. Adjustments. Options granted under this Program shall be subject to adjustment as provided in Section 7.1 of the Plan, but only to the extent that such adjustment is consistent with adjustments to options held by persons other than executive officers or directors of the Corporation (to the extent that persons other than executive officers or directors of the Corporation then hold options). The grant levels reflected in Section 3 above shall be automatically adjusted upon the record date for any stock split, reverse stock split, or stock dividend to give effect to such change in capitalization unless otherwise provided by the Board or the Administrator in the circumstances, and may be adjusted in the discretion of the Board or the Administrator in any other circumstances contemplated by Section 7.1.

7. Acceleration and Possible Early Termination. If a Change in Control Event (as such term is defined in the Plan) occurs and in connection with such Change in Control Event a Non-Employee Director ceases to be a member of the Board, each option granted under Section 3 above to such Non-Employee Director, to the extent such option is then outstanding, shall become immediately exercisable and vested in full. For purposes of this Section 7, but without limitation, a director will be deemed to have ceased to be a member of the Board in connection with a Change in Control Event if such director (a) is removed by or resigns upon the request of any Person exercising practical voting control over the Corporation following such Change in Control Event or a person acting upon authority or at the instruction of such Person, or (b) is willing or able to continue as a member of the Board but is not re-elected to or retained as a member of the Board by the Corporation's stockholders at the stockholder vote or consent action for the election of directors that precedes and is taken in connection with, or next follows, such Change in Control Event.

Each option granted under this Program shall be subject to adjustment and termination pursuant to Section 7 of the Plan.

8. Maximum Number of Shares; Amendment; Administration. If option grants otherwise required pursuant to this Program would otherwise exceed any applicable share limit under Section 4.2 of the Plan, such grants shall be made pro-rata to directors entitled to such grants. The Board or the Administrator may from time to time amend this Program without stockholder approval; provided that no such amendment shall materially and adversely affect the rights of a Non-Employee Director as to an option granted under this Program before the adoption of such amendment. This Program does not limit the authority of the Board or the Administrator to make other, discretionary award grants to Non-Employee Directors pursuant to the Plan. The Plan Administrator's power and authority to construe and interpret the Plan and awards thereunder pursuant to Section 3.1 of the Plan shall extend to this Program and awards granted hereunder. As provided in Section 3.2 of the Plan, any action taken by, or inaction of, the Administrator relating or pursuant to this Program and within its authority or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

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As amended (Sections 3.1 and 3.2) and restated November 17, 2005

As amended (Section 5) November 9, 2006

As amended (Sections 3.1 and 3.2) August 22, 2007

As amended (Sections 4 and 5) November 5, 2007

As amended (Sections 3.1.2 and 3.2) September 11, 2008



Western Digital Corporation 20511 Lake Forest Drive
Lake Forest, California 92630 Telephone 949-672-7000

**Notice Of Grant Of Stock Option
and Option Agreement — Non-Employee Directors**

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Western Digital Corporation (the “Corporation”) has granted to you (the “Participant”), effective on the Date of Grant set forth below, a nonqualified option to purchase shares of the Corporation’s Common Stock (the “Option”) as follows:

Grant Number	<nbr>
Date of Grant	<optdt>
Option Price per Share ¹	\$<optprc>
Number of Shares Granted ¹	<shgtd>
Expiration Date ²	

1. Option Subject to Amended and Restated 2004 Performance Incentive Plan. The Option was granted pursuant to the Non-Employee Director Option Grant Program (the “Program”), adopted under the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “Plan”). The Option is subject to the terms and conditions of this Notice, the Program and the Plan. By accepting the Option, you are agreeing to the terms of the Option as set forth in these documents. A copy of each of these documents has been provided to you. If you need another copy of any of these documents, or if you would like to confirm that you have the most recent version, you may obtain another copy in the Company Library on the E*TRADE Stock Plans web site. The documents are also available on the Western Digital Intranet site under Legal.

You should read the Program, the Plan, the Prospectus for the Plan and this Notice. The Program and the Plan are each incorporated into (made a part of) this Notice by this reference. To the extent any information in this Notice, the Prospectus for the Plan, or other information provided by the Corporation conflicts with the Program and/or the Plan, the Program or the Plan, as applicable, shall control. Capitalized terms not defined herein have the meanings set forth in the Plan.

You do not have to accept the Option. If you do not agree to the terms of the Option, you should promptly return this Notice to the Western Digital Corporation Stock Plans Administrator.

¹ The number of shares subject to the Option and the per-share exercise price of the Option are subject to adjustment under Section 6 of the Program and Section 7.1 of the Plan (for example, and without limitation, in connection with stock splits).

² The Option is subject to early termination under Sections 5 and 7 of the Program.

Unless otherwise expressly provided in other sections of this Notice, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the grant date of the Option.

2. Option Agreement. This Notice constitutes the Option Agreement with respect to the Option pursuant to Section 5.3 of the Plan.

3. Type of Stock Option. The Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

4. Vesting. Subject to earlier termination in accordance with Section 5, the Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth in this Notice and Section 4 of the Program. The Option may be exercised only to the extent it is vested and exercisable. To the extent that the Option is vested and exercisable, the Participant has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option as provided in Section 5. Fractional share interests shall be disregarded, but may be cumulated.

The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Service for only a portion of the vesting period with respect to a vesting installment, even if services are provided for a substantial portion of that period, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided under Section 5 of the Program or under the Plan.

5. Expiration of Option. The Option shall expire and the Participant shall have no further rights with respect thereto upon the earliest to occur of (a) the termination of the Option in connection with a termination of the director's services as provided in Section 5 of the Program, (b) the termination of the Option as provided in Section 7.4 of the Plan, or (c) the Expiration Date set forth in this Notice. The Option may not be exercised at any time after a termination or expiration of the Option.

6. Exercise of Option. The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
 - payment in full for the purchase price (the per-share exercise price of the Option multiplied by the number of shares to be purchased) in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Participant, valued at their fair market value on the exercise date, provided, however, that any shares initially acquired upon exercise of a stock option or otherwise from the Corporation must have been owned by the Participant for at least six (6) months before the date of such exercise; and
-

- any written statements or agreements required by the Administrator pursuant to Section 8.1 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by notice and third party payment in such manner as may be authorized by the Administrator.

7. Nontransferability. The Option and any other rights of the Participant under this Option Agreement, the Program or the Plan are nontransferable and exercisable only by the Participant, except as set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not authorized any transfer exceptions as contemplated by Section 5.7.2 of the Plan.

8. No Service Commitment. Nothing contained in this Option Agreement, the Program or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, confers upon the Participant any right to remain in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant's other compensation.

9. Rights as a Stockholder. Neither the Participant nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest or privilege in or to any shares of Common Stock subject to the Option except as to such shares, if any, as shall have been actually issued to such person and recorded in such person's name following the exercise of the Option or any portion thereof.

10. Notices. Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the address last reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Participant is no longer a member of the Board of Directors, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 10.

11. Arbitration. Any controversy arising out of or relating to this Option Agreement, the Program and/or the Plan, their enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of their provisions, or any other controversy or claim arising out of or related to the Option or the Participant's employment, including, but not limited to, any state or federal statutory claims, shall be submitted to arbitration in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange, California, or its successor ("JAMS"), or if JAMS is no longer able to supply the arbitrator, such arbitrator shall be selected from the American Arbitration Association, and shall be conducted in accordance with the provisions of California Code of Civil Procedure §§ 1280 et seq. as the exclusive forum for the resolution of such dispute; provided, however, that provisional injunctive relief may, but need not, be sought by either party to this Option Agreement in a court of law while arbitration proceedings are pending, and any provisional injunctive relief granted by such court shall remain effective until the matter is finally determined by the arbitrator. Final resolution of any dispute through arbitration may include any remedy or relief which the arbitrator deems just and equitable, including any and all remedies provided by applicable state or federal statutes. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator hereunder shall be final and binding on

the parties hereto and may be enforced by any court of competent jurisdiction. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with any of the matters referenced in the first sentence above. The parties agree that Corporation shall be responsible for payment of the forum costs of any arbitration hereunder, including the arbitrator's fee. The parties further agree that in any proceeding with respect to such matters, each party shall bear its own attorney's fees and costs (other than forum costs associated with the arbitration) incurred by it or him or her in connection with the resolution of the dispute. By accepting the Option, the Participant consents to all of the terms and conditions of this Option Agreement (including, without limitation, this Section 11).

12. Governing Law. This Option Agreement shall be interpreted and construed in accordance with the laws of the State of Delaware (without regard to conflict of law principles thereunder) and applicable federal law.

13. Severability. If the arbitrator selected in accordance with Section 11 or a court of competent jurisdiction determines that any portion of this Option Agreement, the Program or the Plan is in violation of any statute or public policy, then only the portions of this Option Agreement, the Program or the Plan, as applicable, which are found to violate such statute or public policy shall be stricken, and all portions of this Option Agreement, the Program and the Plan which are not found to violate any statute or public policy shall continue in full force and effect. Furthermore, it is the parties' intent that any order striking any portion of this Option Agreement, the Program and/or the Plan should modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties hereunder.

14. Entire Agreement. This Option Agreement, the Program and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan, the Program and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

15. Section Headings. The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED 2004 PERFORMANCE INCENTIVE PLAN
NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT GRANT PROGRAM

1. Establishment. The Corporation maintains the Western Digital Corporation Non-Employee Directors Restricted Stock Unit Plan, which plan is hereby amended and restated in its entirety effective as of November 17, 2005 (the “**Effective Date**”) as set forth herein and is hereby renamed the Non-Employee Director Restricted Stock Unit Grant Program (the “**Program**”). This amendment and restatement of the Program is effective as to grants on and after the Effective Date; awards granted under the Program prior to the Effective Date are governed by the applicable terms of the Program as in effect on the date of grant of the award. The Program has been restated as an Appendix to, and any shares of Common Stock issued with respect to awards granted under the Program on and after the Effective Date shall be charged against the applicable share limits of, the Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan (the “**Plan**”). Except as otherwise expressly provided herein, the provisions of the Plan shall govern all awards made pursuant to the Program. Capitalized terms are defined in the Plan if not defined herein.

2. Purpose. The purpose of the Program is to promote the success of the Corporation and the interests of its stockholders by providing members of the Board who are not officers or employees of the Corporation or one of its Subsidiaries (“**Non-Employee Directors**”) an opportunity to acquire an ownership interest in the Corporation and more closely aligning the interests of Non-Employee Directors and stockholders.

3. Participation. An award of Stock Units (a “**Stock Unit Award**”) under the Program shall be made only to Non-Employee Directors, shall be evidenced by a Notice of Award of Stock Units substantially in the form attached as Exhibit 1 hereto and shall be further subject to such other terms and conditions set forth therein. As used in the Program, the term “**Stock Unit**” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Program. Stock Units shall be used solely as a device for the determination of the number of shares of Common Stock to eventually be delivered to a Non-Employee Director if Stock Units held by such Non-Employee Director vest pursuant to Section 6 or Section 8. Stock Units shall not be treated as property or as a trust fund of any kind. Stock Units granted to a Non-Employee Director pursuant to the Program shall be credited to an unfunded bookkeeping account maintained by the Corporation on behalf of the Non-Employee Director (a “**Program Account**”).

4. Annual Stock Unit Awards.

4.1 Annual Awards. On the date of and immediately following the Corporation’s regular annual meeting of stockholders in each year during the term of the Plan commencing with 2008, each Non-Employee Director then in office shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number (rounded down to the nearest whole number) of Stock Units equal to (i) \$125,000, divided by (ii) the Fair Market Value of a share of Common Stock on the applicable annual meeting date (subject to adjustment as provided in Section 7.1 of the Plan). An individual who was previously a member of the Board, who then ceased to be a member of the Board for any reason, and

who then again becomes a Non-Employee Director shall thereupon again become eligible to be granted Stock Units under this Section 4.1.

4.2 Initial Award for New Non-Employee Directors. Each Non-Employee Director, upon first becoming a Non-Employee Director (including, without limitation, by virtue of being appointed or elected to the Board or, with respect to any member of the Board who is employed by the Corporation or any of its Subsidiaries, by virtue of retiring or otherwise ceasing to be employed by the Corporation or any of its Subsidiaries), shall be granted automatically (without any action by the Board or the Administrator) a Stock Unit Award with respect to a number of Stock Units equal to (i) the number of Stock Units in the Annual Award immediately preceding the date such person first becomes a Non-Employee Director, divided by (ii) 365, multiplied by (iii) the number of days from the date such person first becomes a Non-Employee Director to the scheduled date of the Corporation's next annual meeting of stockholders.

4.3 Transfer Restrictions. Stock Units granted pursuant to this Section 4 shall be subject to the transfer restrictions set forth in Section 5.7 of the Plan. For purposes of clarity, the Administrator has not approved any transfer exceptions with respect to Stock Units granted pursuant to the Program in accordance with Section 5.7.2 of the Plan.

5. Dividend and Voting Rights.

5.1 Limitation of Rights Associated with Stock Units. A Non-Employee Director shall have no rights as a stockholder of the Corporation, no dividend rights (except as expressly provided in Section 5.2 with respect to dividend equivalent rights) and no voting rights, with respect to Stock Units granted pursuant to the Program and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Non-Employee Director. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5.2 Dividend Equivalent Rights. As of any date that the Corporation pays a dividend (other than in shares of Common Stock) upon issued and outstanding Common Stock, or makes a distribution (other than in shares of Common Stock) with respect thereto, a Non-Employee Director's Program Account shall be credited with an additional number (rounded down to the nearest whole number) of Stock Units equal to (i) the "fair value" of any dividend (or other distribution) with respect to one share of Common Stock, multiplied by (ii) the number of unvested Stock Units credited to the Non-Employee Director's Program Account immediately prior to such dividend or distribution, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend or distribution. In the case of a cash dividend or distribution, the "fair value" thereof shall be the amount of such cash, and, in the case of any other dividend or distribution (other than in shares of Common Stock), the "fair value" thereof shall be such amount as shall be determined in good faith by the Administrator. Stock Units credited pursuant to the foregoing provisions of this Section 5.2 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. No adjustment shall be made pursuant to Section 7.1 of the Plan as to Stock Units granted pursuant to the Program in connection with any dividend

(other than in shares of Common Stock) or distribution (other than in shares of Common Stock) for which dividend equivalents are credited pursuant to the foregoing provisions of this Section 5.2. Stock Units granted pursuant to the Program shall otherwise be subject to adjustment pursuant to Section 7.1 of the Plan (for example, and without limitation, in connection with a split or reverse split of the outstanding Common Stock).

6. Vesting. Subject to Section 8 hereof and Section 7 of the Plan, a Stock Unit Award granted to a Non-Employee Director pursuant to the Program (whether pursuant to Section 4 or Section 5.2) shall vest and become payable as to 100% of the total number of Stock Units subject thereto on the third anniversary of the date of grant of the Stock Unit Award.

7. Continuation of Services. The vesting schedule requires continued service through each applicable vesting date as a condition to the vesting of the applicable installment of a Stock Unit Award and the rights and benefits under the Program. Partial service, even if substantial, during any vesting period will not entitle a Non-Employee Director to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of services as provided in Section 8 below. Nothing contained in the Program constitutes a continued service commitment by the Corporation, confers upon a Non-Employee Director any right to remain in service to the Corporation, interferes with the right of the Corporation at any time to terminate such service, or affects the right of the Corporation to increase or decrease a Non-Employee Director's other compensation.

8. Termination of Directorship. Subject to earlier termination pursuant to Section 7 of the Plan, if a Non-Employee Director ceases to be a member of the Board for any reason, the following rules shall apply with respect to any Stock Units granted to the Non-Employee Director pursuant to Section 4 above (the last day that the Non-Employee Director is a member of the Board is, except as otherwise provided below, referred to as the Non-Employee Director's "**Severance Date**"):

- other than as expressly provided below in this Section 8, (a) one-third (1/3) of the number of Stock Units granted to the Non-Employee Director pursuant to the Program within the period commencing twenty-four (24) months prior to, and ending twelve (12) months prior to, the Non-Employee Director's Severance Date shall immediately vest and become payable; (b) two-thirds (2/3) of the number of Stock Units granted to the Non-Employee Director pursuant to the Program within the period commencing thirty-six (36) months prior to, and ending twenty-four (24) months prior to, the Non-Employee Director's Severance Date shall immediately vest and become payable; and (c) all Stock Units granted to a Non-Employee Director pursuant to the Program that have not vested as of, or do not vest upon, the Non-Employee Director's Severance Date, shall immediately terminate without payment therefor;
 - if the Non-Employee Director ceases to be a member of the Board due to his or her death or Disability (as defined below), all Stock Units granted to the Non-Employee Director pursuant to the Program shall immediately vest and become payable;
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- if the Non-Employee Director ceases to be a member of the Board due to his or her Retirement (as defined below), all Stock Units subject to a Stock Unit Award granted to the Non-Employee Director pursuant to the Program shall immediately vest and become payable, provided that the Non-Employee Director has served as a member of the Board for at least twelve (12) continuous months following the grant date of such Stock Unit Award;
- if the Non-Employee Director ceases to be a member of the Board due to his or her Removal, all then-unvested Stock Units granted to the Non-Employee Director pursuant to the Program shall immediately terminate without payment therefor.

For purposes of this Section 8, the term “**Disability**” shall mean a period of disability during which a Non-Employee Director qualified for permanent disability benefits under the Corporation’s long-term disability plan, or, if the Non-Employee Director does not participate in such a plan, a period of disability during which the Non-Employee Director would have qualified for permanent disability benefits under such a plan had the Non-Employee Director been a participant in such a plan, as determined in the sole discretion of the Administrator. If the Corporation does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Administrator in its sole discretion. For purposes of this Section 8, the term “**Retirement**” shall mean the cessation of a director’s services as a member of the Board due to his or her voluntary resignation at any time after such director has served as a member of the Board for at least forty-eight (48) months. For purposes of this Section 8, the term “**Removal**” shall mean the removal of a Non-Employee Director from the Board, with or without cause, in accordance with the Corporation’s Certificate of Incorporation, Bylaws or the Delaware General Corporation Law.

Notwithstanding any other provision of this Section 8, if a Non-Employee Director ceases to be a member of the Board (regardless of the reason) but, immediately thereafter, is employed by the Corporation or one of its Subsidiaries, such director’s Severance Date shall not be the date the director ceases to be a member of the Board but instead shall be the last day that the director is either or both (1) a member of the Board and/or (2) employed by the Corporation or a Subsidiary.

9. Timing and Manner of Payment of Stock Units. Except as provided in Section 10 below, on or within fifteen (15) business days following the vesting of any Stock Units granted to a Non-Employee Director pursuant to the Program (whether pursuant to Section 6 or Section 8 hereof or Section 7 of the Plan), the Corporation shall deliver to the Non-Employee Director a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its sole discretion) equal to the number of Stock Units that vest on the applicable vesting date, subject to adjustment as provided in Section 7 of the Plan; provided, however, that, to the extent permitted by the Corporation’s Amended and Restated Deferred Compensation Plan, as it may be amended from time to time (the “**Deferred Compensation Plan**”), a Non-Employee Director may elect to defer receipt of any or all shares of Common Stock payable with respect to Stock Units that vest pursuant to the Program. Such elections shall be made, and any such deferral shall be effected and administered, in accordance with the Deferred Compensation Plan. The Corporation’s obligation to deliver shares of Common Stock with respect to vested Stock Units is subject to the

condition precedent that the Non-Employee Director (or other person entitled under the Plan to receive any shares with respect to the vested Stock Units) deliver to the Corporation any representations or other documents or assurances required pursuant to Section 8.1 of the Plan. A Non-Employee Director shall have no further rights with respect to any Stock Units that are paid or that are terminated pursuant to Section 8 hereof or Section 7 of the Plan, and such Stock Units shall be removed from the Non-Employee Director's Program Account upon the date of such payment or termination.

10. Change in Control Events. A Stock Unit Award may vest and become payable in connection with the occurrence of certain events involving the Corporation as provided for in Section 7 of the Plan; provided, however, that, notwithstanding anything to the contrary in the Program or the Plan, if the event giving rise to such accelerated vesting is not also a "change in the ownership or effective control" of the Corporation for purposes of Section 409A of the Code, then payment with respect to such vested Stock Unit Award shall not be made until such Stock Unit Award would have become vested and payable without regard to this Section 10 or Section 7 of the Plan.

11. Plan Provisions; Maximum Number of Shares; Amendment; Administration. Stock Units granted under the Program shall otherwise be subject to the terms of the Plan (including, without limitation, the provisions of Section 7 of the Plan). If Stock Unit Awards otherwise required pursuant to the Program would otherwise exceed any applicable share limit under Section 4.2 of the Plan, such grants shall be made pro-rata to Non-Employee Directors entitled to such grants. The Board may from time to time amend the Program without stockholder approval; provided that no such amendment shall materially and adversely affect the rights of a Non-Employee Director as to a Stock Unit Award granted under the Program before the adoption of such amendment. The Board may amend, modify, suspend or terminate outstanding Stock Unit Awards; provided, however, that outstanding Stock Unit Awards shall not be amended, modified, suspended or terminated so as to impair any rights of the recipient of the award without the consent of such recipient. If any such amendment or modification to an outstanding Stock Unit Award has the result of accelerating the vesting of such award, then any election that had been made to defer receipt of payment with respect to any or all of the Stock Units subject to the award pursuant to the Deferred Compensation Plan shall be disregarded. The Program does not limit the Board's authority to make other, discretionary award grants to Non-Employee Directors pursuant to the Plan. The Plan Administrator's power and authority to construe and interpret the Plan and awards thereunder pursuant to Section 3.1 of the Plan shall extend to the Program and awards granted hereunder. As provided in Section 3.2 of the Plan, any action taken by, or inaction of, the Administrator relating or pursuant to the Program and within its authority or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

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As amended (Section 8) November 9, 2006

As amended (Section 4.2) August 22, 2007

As amended (Sections 4.1 and 4.2) September 11, 2008

Western Digital Corporation
 Summary of Compensation Arrangements
 for
 Named Executive Officers and Directors

NAMED EXECUTIVE OFFICERS

Base Salaries. The current annual base salaries for the current executive officers of Western Digital Corporation (the “Company”) who were named in the Summary Compensation Table in the Company’s Proxy Statement that was filed with the Securities and Exchange Commission in connection with the Company’s 2008 Annual Meeting of Stockholders (the “Named Executive Officers”) are as follows:

Named Executive Officer	Title	Current Base Salary
John F. Coyne	President and Chief Executive Officer	\$900,000
Timothy M. Leyden	Executive Vice President and Chief Financial Officer	\$550,000
Raymond M. Bukaty	Senior Vice President, Administration, General Counsel and Secretary	\$400,000
Hossein Moghadam	Senior Vice President, Chief Technology Officer	\$400,000

Semi-Annual Bonuses. Under the Company’s Incentive Compensation Plan (the “ICP”), the Named Executive Officers are also eligible to receive semi-annual cash bonus awards that are determined based on the Company’s achievement of performance goals pre-established by the Compensation Committee (the “Committee”) of the Company’s Board of Directors as well as other discretionary factors. The ICP, including the performance goals established by the Compensation Committee for the first half of fiscal 2009, are further described in the Company’s current report on form 8-K filed with the Securities and Exchange Commission on August 12, 2008, which is incorporated herein by reference.

Additional Compensation. The Named Executive Officers are also eligible to receive equity-based incentives and discretionary bonuses as determined from time to time by the Committee, are entitled to participate in various Company plans, and are subject to other written agreements, in each case as set forth in exhibits to the Company’s filings with the Securities and Exchange Commission. In addition, the Named Executive Officers may be eligible to receive perquisites and other personal benefits as disclosed in the Company’s Proxy Statement that was filed with the Securities and Exchange Commission in connection with the Company’s 2008 Annual Meeting of Stockholders.

DIRECTORS

Annual Retainer and Committee Retainer Fees. The following table sets forth the current annual retainer and committee membership fees payable to each of the Company's non-employee directors:

Type of Fee	Retainer Fees (Effective After January 1, 2007)
Annual Retainer	\$ 75,000
Lead Independent Director Retainer	\$ 20,000
Non-Executive Chairman of Board Retainer	\$100,000
Additional Committee Retainers	
• Audit Committee	\$ 10,000
• Compensation Committee	\$ 5,000
• Governance Committee	\$ 2,500
Additional Committee Chairman Retainers	
• Audit Committee	\$ 15,000
• Compensation Committee	\$ 10,000
• Governance Committee	\$ 7,500

The retainer fee to the Company's lead independent director referred to above is paid only if the Chairman of the Board is an employee of the Company. The annual retainer fees are generally paid on January 1 of each year, except that prior to January 1, 2008 the retainer to the Chairman of the Board or to the lead independent director was paid in equal installments at the beginning of each calendar quarter.

The Company also reimburses all non-employee directors for reasonable out-of-pocket expenses incurred to attend each Board of Directors or committee meeting; however, since November 2005, non-employee directors no longer receive a separate fee for each Board of Directors or committee meeting they attend. Mr. Coyne, who is an employee of the Company, does not receive any compensation for his service on the Board or any Board committee.

Additional Director Compensation. The Company's non-employee directors are also entitled to participate in the following other Company plans as set forth in exhibits to the Company's filings with the Securities and Exchange Commission: Non-Employee Director Option Grant Program and Non-Employee Director Restricted Stock Unit Grant Program, each as adopted under the Company's Amended and Restated 2004 Performance Incentive Plan; Amended and Restated Non-Employee Directors Stock-for-Fees Plan; and Amended and Restated Deferred Compensation Plan.

WESTERN DIGITAL CORPORATION
DEFERRED COMPENSATION PLAN
Amended and Restated Effective
<September 11, 2008>

Western Digital Corporation Deferred Compensation Plan

ARTICLE I		
Establishment and Purpose		1
ARTICLE II		
Definitions		1
ARTICLE III		
Eligibility and Participation		10
ARTICLE IV		
Deferrals		10
ARTICLE V		
Company Contributions		13
ARTICLE VI		
Benefits		15
ARTICLE VII		
Modifications to Payment Schedules		19
ARTICLE VIII		
Valuation of Account Balances; Investments		20
ARTICLE IX		
Administration		22
ARTICLE X		
Amendment and Termination		23
ARTICLE XI		
Informal Funding		24
ARTICLE XII		
Claims		24
ARTICLE XIII		
General Provisions		30

Western Digital Corporation Deferred Compensation Plan

ARTICLE I

Establishment and Purpose

Western Digital Corporation (the “Company”) hereby amends and restates the Western Digital Corporation Deferred Compensation Plan (the “Plan”), effective September 11, 2008. This amendment and restatement applies only to amounts deferred under the Plan on or after January 1, 2005, and to amounts deferred prior to January 1, 2005 that were not vested as of December 31, 2004. Amounts deferred under the Plan prior to January 1, 2005 that were vested as of December 31, 2004 (the “Grandfathered Accounts”) shall be subject to the provisions of the Plan as in effect on October 3, 2004 (the “Grandfathered Plan”), as the same may be amended from time to time by the Company without material modification, it being expressly intended that such Grandfathered Accounts are to remain exempt from the requirements of Code Section 409A. Specified provisions of the Plan applicable to Grandfathered Accounts are reflected in this document for ease of reference; however, reflection of such provisions shall not modify the provisions of the Grandfathered Plan.

The purpose of the Plan is to attract and retain key employees and Directors by providing Participants with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Plan is not intended to meet the qualification requirements of Code Section 401(a), but is intended to meet the requirements of Code Section 409A so as to avoid the imputation of any tax, penalty or interest thereunder, and shall be operated and interpreted consistent with that intent.

The Plan constitutes an unsecured promise by a Participating Employer to pay benefits in the future. Participants in the Plan shall have the status of general unsecured creditors of the Company or the Adopting Employer, as applicable. Each Participating Employer shall be solely responsible for payment of the benefits of its employees and their beneficiaries. The Plan is unfunded for Federal tax purposes and is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. Any amounts set aside to defray the liabilities assumed by the Company or an Adopting Employer will remain the general assets of the Company or the Adopting Employer and shall remain subject to the claims of the Company’s or the Adopting Employer’s creditors until such amounts are distributed to the Participants.

ARTICLE II

Definitions

- 2.1 Account. Account means a bookkeeping account maintained by the Committee to record the payment obligation of a Participating Employer to a Participant as determined under the terms of the Plan. The Committee may maintain an Account to record the total obligation to a Participant and component Accounts to reflect amounts payable at different times and in different forms. Reference to an Account means any such Account established by the Committee, as the context requires. Accounts are intended to constitute unfunded obligations within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.
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Western Digital Corporation Deferred Compensation Plan

- 2.2 **Account Balance.** Account Balance means, with respect to any Account, the total payment obligation owed to a Participant from such Account as of the most recent Valuation Date.
- 2.3 **Adopting Employer.** Adopting Employer means an Affiliate who, with the consent of the Company, has adopted the Plan for the benefit of its Eligible Employees.
- 2.4 **Affiliate.** Affiliate means a corporation, trade or business that, together with the Company, is treated as a single employer under Code Section 414(b) or (c).
- 2.5 **Beneficiary.** Beneficiary means a natural person, estate, or trust designated by a Participant to receive payments to which a Beneficiary is entitled in accordance with provisions of the Plan. If someone other than the Participant's spouse is designated as Beneficiary, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. If the Participant has failed to properly designate a Beneficiary, or if all designated Beneficiaries have predeceased the Participant, then the Beneficiary shall be the Participant's spouse, if living, otherwise the Participant's estate.
- A former spouse shall have no interest under the Plan, as Beneficiary or otherwise, unless the Participant designates such person as a Beneficiary after dissolution of the marriage, except to the extent provided under the terms of a domestic relations order as described in Code Section 414(p)(1)(B).
- 2.6 **Business Day.** Business Day means each day on which the New York Stock Exchange is open for business.
- 2.7 **Change in Control.** Change in Control means, with respect to a Participating Employer that is organized as a corporation, any of the following events: (i) a change in the ownership of the Participating Employer, (ii) a change in the effective control of the Participating Employer, or (iii) a change in the ownership of a substantial portion of the assets of the Participating Employer.

For purposes of this Section, a change in the ownership of the Participating Employer occurs on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Participating Employer. A change in the effective control of the Participating Employer occurs on the date on which either: (i) a person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer possessing 30% or more of the total voting power of the stock of the Participating Employer, taking into account all such stock acquired during the 12-month period ending on the date of the most recent acquisition, or (ii) a majority of the members of the Participating Employer's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the

Western Digital Corporation Deferred Compensation Plan

members of such Board of Directors prior to the date of the appointment or election, but only if no other corporation is a majority shareholder of the Participating Employer . A change in the ownership of a substantial portion of assets occurs on the date on which any one person, or more than one person acting as a group, other than a person or group of persons that is related to the Participating Employer, acquires assets from the Participating Employer that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Participating Employer immediately prior to such acquisition or acquisitions, taking into account all such assets acquired during the 12-month period ending on the date of the most recent acquisition.

An event constitutes a Change in Control with respect to a Participant only if the Participant performs services for the Participating Employer that has experienced the Change in Control, or the Participant's relationship to the affected Participating Employer otherwise satisfies the requirements of Treasury Regulation Section 1.409A-3(i)(5)(ii) (or any successor provision).

Notwithstanding anything to the contrary herein, with respect to a Participating Employer that is a partnership, Change in Control means only a change in the ownership of the partnership or a change in the ownership of a substantial portion of the assets of the partnership, and the provisions set forth above respecting such changes relative to a corporation shall be applied by analogy.

The determination as to the occurrence of a Change in Control shall be based on objective facts and in accordance with the requirements of Code Section 409A.

- 2.8 Claimant. Claimant means a Participant or Beneficiary filing a claim under Article XII of this Plan.
- 2.9 Code. Code means the Internal Revenue Code of 1986, as amended from time to time.
- 2.10 Code Section 409A. Code Section 409A means section 409A of the Code, and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.
- 2.11 Committee. Committee means the committee appointed by the Board of Directors of the Company (or the appropriate committee of such board) to administer the Plan. Members of the Committee may be Participants and/or Employees; provided, however, that any member of the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. If no designation is made, the Board of Directors of the Company shall have and exercise the powers of the Committee.
- 2.12 Company. Company means Western Digital Corporation, a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.
- 2.13 Company Contribution. Company Contribution means a credit by a Participating Employer to a Participant's Account(s) in accordance with the provisions of Article V of the Plan. Company Contributions are credited at the sole discretion of the Participating Employer and the fact that a Company Contribution is credited in one year shall not
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Western Digital Corporation Deferred Compensation Plan

obligate the Participating Employer to continue to make such Company Contribution in subsequent years. Unless the context clearly indicates otherwise, a reference to Company Contribution shall include Earnings attributable to such contribution.

- 2.14 Company Stock. Company Stock means shares of common stock issued by the Company.
- 2.15 Compensation. Compensation means a Participant's base salary, bonus, commission, Director fees, and such other cash or equity-based compensation (if any) approved by the Committee as Compensation that may be deferred under this Plan. Compensation shall not include any compensation that has been previously deferred under this Plan or any other arrangement subject to Code Section 409A.
- 2.16 Compensation Deferral Agreement. Compensation Deferral Agreement means an agreement between a Participant and a Participating Employer that specifies: (i) the amount of each component of Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV, and (ii) the Payment Schedule applicable to one or more Accounts. The Committee may permit different deferral amounts for each component of Compensation and may establish a minimum or maximum deferral amount for each such component. Unless otherwise specified by the Committee in the Compensation Deferral Agreement, Participants may defer up to 80% of their base salary and up to 100% of other types of Compensation for a Plan Year. A Compensation Deferral Agreement may also specify the investment allocation described in Section 8.4.
- 2.17 Death Benefit. Death Benefit means the benefit payable under the Plan to a Participant's Beneficiary(ies) upon the Participant's death as provided in Section 6.1 of the Plan.
- 2.18 Deferral. Deferral means a credit to a Participant's Account(s) that records that portion of the Participant's Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV. Unless the context of the Plan clearly indicates otherwise, a reference to Deferrals includes Earnings attributable to such Deferrals.
- Deferrals shall be calculated with respect to the gross cash Compensation payable to the Participant prior to any deductions or withholdings, but shall be reduced by the Committee as necessary so that it does not exceed 100% of the cash Compensation of the Participant remaining after deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law. Changes to payroll withholdings that affect the amount of Compensation being deferred to the Plan shall be allowed only to the extent permissible under Code Section 409A.
- 2.19 Director. Director means a member of the Board of Directors of the Company.
- 2.20 Disability Benefit. Disability Benefit means the benefit payable under the Plan to a Participant in the event such Participant is determined to be Disabled.
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Western Digital Corporation Deferred Compensation Plan

- 2.21 Disabled. Disabled means that a Participant is, by reason of any medically-determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months: (i) unable to engage in any substantial gainful activity, or (ii) receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer. The Committee shall determine whether a Participant is Disabled in accordance with Code Section 409A provided; however, that a Participant shall be deemed to be Disabled if determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.
- 2.22 Earnings. Earnings means an adjustment to the value of an Account in accordance with Article VIII.
- 2.23 Effective Date. Effective Date means September 11, 2008.
- 2.24 Eligible Employee. Eligible Employee means a member of a "select group of management or highly compensated employees" of a Participating Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, as determined by the Committee from time to time in its sole discretion.
- 2.25 Employee. Employee means a common-law employee of an Employer.
- 2.26 Employer. Employer means, with respect to Employees it employs, the Company and each Affiliate.
- 2.27 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 2.28 Fiscal Year Compensation. Fiscal Year Compensation means Compensation earned during one or more consecutive fiscal years of a Participating Employer, all of which is paid after the last day of such fiscal year or years.
- 2.29 Grandfathered Account. Grandfathered Account means amounts deferred under the Plan prior to January 1, 2005 that were vested as of December 31, 2004.
- 2.30 Participant. Participant means an Eligible Employee or a Director who has received notification of his or her eligibility to defer Compensation under the Plan under Section 3.1 and any other person with an Account Balance greater than zero, regardless of whether such individual continues to be an Eligible Employee or a Director. A Participant's continued participation in the Plan shall be governed by Section 3.2 of the Plan.
- 2.31 Participating Employer. Participating Employer means the Company and each Adopting Employer.
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Western Digital Corporation Deferred Compensation Plan

- 2.32 Payment Schedule. Payment Schedule means the date as of which payment of an Account under the Plan will commence and the form in which payment of such Account will be made.
- 2.33 Performance-Based Compensation. Performance-Based Compensation means Compensation where the amount of, or entitlement to, the Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. Organizational or individual performance criteria are considered pre-established if established in writing by not later than 90 days after the commencement of the period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. The determination of whether Compensation qualifies as “Performance-Based Compensation” will be made in accordance with Treas. Reg. Section 1.409A-1(e) and subsequent guidance.
- 2.34 Plan. Generally, the term Plan means the “Western Digital Corporation Deferred Compensation Plan” as documented herein and as may be amended from time to time hereafter. However, to the extent permitted or required under Code Section 409A, the term Plan may in the appropriate context also mean a portion of the Plan that is treated as a single plan under Treas. Reg. Section 1.409A-1(c), or the Plan or portion of the Plan and any other nonqualified deferred compensation plan or portion thereof that is treated as a single plan under such section.
- 2.35 Plan Year. Plan Year means January 1 through December 31.
- 2.36 Retirement. Retirement means a Participant’s Separation from Service for reasons other than Disability or death after attainment of age 55; provided, however, that in the case of a non-Employee Director, Retirement means severance of all directorships with the Employer for reasons other than Disability or death after attainment of age 70 (or, with respect to a Grandfathered Account, severance of all directorships with the Employer for reasons other than Disability or death after attainment of age 70 or such later age as the Committee shall specify).
- 2.37 Retirement Benefit. Retirement Benefit means the benefit payable to a Participant under the Plan following the Retirement of the Participant.
- 2.38 Retirement/Termination Account. Retirement/Termination Account means an Account established by the Committee to record the amounts payable to a Participant upon Retirement or other Separation from Service. Unless the Participant has established a Specified Date Account, all Deferrals and Company Contributions shall be allocated to a Retirement/Termination Account on behalf of the Participant.
- 2.39 Separation from Service. Separation from Service means a termination of services provided by a Participant to his or her Employer, whether voluntarily or involuntarily, other than by reason of death or Disability, as determined by the Committee in
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Western Digital Corporation Deferred Compensation Plan

accordance with Treas. Reg. §1.409A-1(h). In determining whether a Participant has experienced a Separation from Service, the following provisions shall apply:

- (a) For a Participant who provides services to an Employer as an Employee, except as otherwise provided in part (c) of this Section, a Separation from Service shall occur when such Participant has experienced a termination of employment with such Employer. A Participant shall be considered to have experienced a termination of employment when the facts and circumstances indicate that the Participant and his or her Employer reasonably anticipate that either (i) no further services will be performed for the Employer after a certain date, or (ii) that the level of bona fide services the Participant will perform for the Employer after such date (whether as an Employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed by such Participant (whether as an Employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Employer if the Participant has been providing services to the Employer less than 36 months).

If a Participant is on military leave, sick leave, or other bona fide leave of absence, the employment relationship between the Participant and the Employer shall be treated as continuing intact, provided that the period of such leave does not exceed 6 months, or if longer, so long as the Participant retains a right to reemployment with the Employer under an applicable statute or by contract. If the period of a military leave, sick leave, or other bona fide leave of absence exceeds 6 months and the Participant does not retain a right to reemployment under an applicable statute or by contract, the employment relationship shall be considered to be terminated for purposes of this Plan as of the first day immediately following the end of such 6-month period. In applying the provisions of this paragraph, a leave of absence shall be considered a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Employer.

- (b) For a Participant who provides services to an Employer as an independent contractor, except as otherwise provided in part (c) of this Section, a Separation from Service shall occur upon the expiration of the contract (or in the case of more than one contract, all contracts) under which services are performed for such Employer, provided that the expiration of such contract(s) is determined by the Committee to constitute a good-faith and complete termination of the contractual relationship between the Participant and such Employer.
 - (c) For a Participant who provides services to an Employer as both an Employee and an independent contractor, a Separation from Service generally shall not occur until the Participant has ceased providing services for such Employer as both as an Employee and as an independent contractor, as determined in accordance with the provisions set forth in parts (a) and (b) of this Section, respectively. Similarly, if a Participant either (i) ceases providing services for an Employer as an
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Western Digital Corporation Deferred Compensation Plan

independent contractor and begins providing services for such Employer as an Employee, or (ii) ceases providing services for an Employer as an Employee and begins providing services for such Employer as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services for such Employer in both capacities, as determined in accordance with the applicable provisions set forth in parts 0 and (b) of this Section.

Notwithstanding the foregoing provisions in this part (c), if a Participant provides services for an Employer as both an Employee and as a Director, to the extent permitted by Treas. Reg. §1.409A-1(h)(5) the services provided by such Participant as a Director shall not be taken into account in determining whether the Participant has experienced a Separation from Service as an Employee, and the services provided by such Participant as an Employee shall not be taken into account in determining whether the Participant has experienced a Separation from Service as a Director.

2.40 Specified Date Account. Specified Date Account means an Account established by the Committee to record the amounts payable at a future date as specified in the Participant's Compensation Deferral Agreement. Unless otherwise determined by the Committee, a Participant may maintain no more than five Specified Date Accounts with respect to Deferrals not attributable to a Grandfathered Account. A Specified Date Account may be identified in enrollment materials as an "In-Service Account" or such other name as established by the Committee without affecting the meaning thereof. Any Short-Term Payout (as defined in the Grandfathered Plan) elected by a Participant with respect to Deferrals attributable to a Grandfathered Account shall be maintained in separate Specified Date Accounts.

2.41 Specified Date Benefit. Specified Date Benefit means the benefit payable to a Participant under the Plan in accordance with Section 6.1(c).

2.42 Specified Employee. Specified Employee means an Employee who, as of the date of his or her Separation from Service, is a "key employee" of the Company or any Affiliate, any stock of which is actively traded on an established securities market or otherwise.

An Employee is a key employee if he or she meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with applicable regulations thereunder and without regard to Code Section 416(i)(5)) at any time during the 12-month period ending on the Specified Employee Identification Date. Such Employee shall be treated as a key employee for the entire 12-month period beginning on the Specified Employee Effective Date.

For purposes of determining whether an Employee is a Specified Employee, the compensation of the Employee shall be determined in accordance with the definition of compensation provided under Treas. Reg. Section 1.415(c)-2(d)(2) (wages, salaries, fees for professional services, and other amounts received for personal services actually rendered in the course of employment with the employer maintaining the plan, to the

Western Digital Corporation Deferred Compensation Plan

extent such amounts are includible in gross income or would be includible but for an election under section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k) or 457(b), including the earned income of a self-employed individual); provided, however, that, with respect to a nonresident alien who is not a Participant in the Plan, compensation shall not include compensation that is not includible in the gross income of the Employee under Code Sections 872, 893, 894, 911, 931 and 933, provided such compensation is not effectively connected with the conduct of a trade or business within the United States.

Notwithstanding anything in this paragraph to the contrary: (i) if a different definition of compensation has been designated by the Company with respect to another nonqualified deferred compensation plan in which a key employee participates, the definition of compensation shall be the definition provided in Treas. Reg. Section 1.409A-1(i)(2), and (ii) the Company may through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Company, elect to use a different definition of compensation.

In the event of corporate transactions described in Treas. Reg. Section 1.409A-1(i)(6), the identification of Specified Employees shall be determined in accordance with the default rules described therein, unless the Employer elects to utilize the available alternative methodology through designations made within the timeframes specified therein.

- 2.43 Specified Employee Identification Date. Specified Employee Identification Date means December 31, unless the Employer has elected a different date through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Employer.
- 2.44 Specified Employee Effective Date. Specified Employee Effective Date means the first day of the fourth month following the Specified Employee Identification Date, or such earlier date as is selected by the Committee.
- 2.45 Substantial Risk of Forfeiture. Substantial Risk of Forfeiture means the description specified in Treas. Reg. Section 1.409A-1(d).
- 2.46 Termination Benefit. Termination Benefit means the benefit payable to a Participant under the Plan following the Participant's Separation from Service prior to Retirement.
- 2.47 Unforeseeable Emergency. Unforeseeable Emergency means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined in Code section 152, without regard to section 152(b)(1), (b)(2), and (d)(1)(B)), or a Beneficiary; loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether an Unforeseeable Emergency has occurred shall be determined by the Committee in accordance with Code Section 409A.
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Western Digital Corporation Deferred Compensation Plan

The types of events which may qualify as an Unforeseeable Emergency may be limited by the Committee.

2.48 Valuation Date. Valuation Date means each Business Day.

2.49 Year of Service. Year of Service means each 12-month period of continuous service with the Employer.

ARTICLE III

Eligibility and Participation

- 3.1 Eligibility and Participation. An Eligible Employee or a Director becomes a Participant upon the earlier to occur of: (i) a credit of Company Contributions under Article V, or (ii) receipt of notification of eligibility to participate.
- 3.2 Duration. A Participant shall be eligible to defer Compensation and receive allocations of Company Contributions, subject to the terms of the Plan, for as long as such Participant remains an Eligible Employee or a Director. A Participant who is no longer an Eligible Employee or a Director but has not Separated from Service may not defer Compensation under the Plan beyond the Plan Year in which he or she became ineligible but may otherwise exercise all of the rights of a Participant under the Plan with respect to his or her Account(s). On and after a Separation from Service, a Participant shall remain a Participant as long as his or her Account Balance is greater than zero (0), and during such time may continue to make allocation elections as provided in Section 8.4. An individual shall cease being a Participant in the Plan when all benefits under the Plan to which he or she is entitled have been paid.

ARTICLE IV

Deferrals

4.1 Deferral Elections, Generally.

- (a) A Participant may elect to defer Compensation by submitting a Compensation Deferral Agreement during the enrollment periods established by the Committee and in the manner specified by the Committee, but in any event, in accordance with Section 4.2. A Compensation Deferral Agreement that is not timely filed with respect to a service period or component of Compensation shall be considered void and shall have no effect with respect to such service period or Compensation. The Committee may modify any Compensation Deferral Agreement prior to the date the election becomes irrevocable under the rules of Section 4.2.
- (b) The Participant shall specify on his or her Compensation Deferral Agreement the amount of Deferrals and whether to allocate Deferrals to a
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Western Digital Corporation Deferred Compensation Plan

Retirement/Termination Account or to a Specified Date Account. If no designation is made, Deferrals shall be allocated to the Retirement/Termination Account. A Participant may also specify in his or her Compensation Deferral Agreement the Payment Schedule applicable to his or her Plan Accounts. If the Payment Schedule is not specified in a Compensation Deferral Agreement, the Payment Schedule shall be the Payment Schedule specified in Section 6.2.

4.2 Timing Requirements for Compensation Deferral Agreements.

- (a) *First Year of Eligibility.* In the case of the first year in which an Eligible Employee or a Director becomes eligible to participate in the Plan (as determined under Section 3.1), he or she has up to 30 days following his or her initial eligibility to submit a Compensation Deferral Agreement with respect to Compensation to be earned during such year. The Compensation Deferral Agreement described in this paragraph becomes irrevocable upon receipt and acceptance by the Company prior to the end of such 30-day period. The determination of whether an Eligible Employee or a Director may file a Compensation Deferral Agreement under this paragraph shall be determined in accordance with the rules of Code Section 409A, including the provisions of Treas. Reg. Section 1.409A-2(a)(7).

A Compensation Deferral Agreement filed under this paragraph applies to Compensation earned on and after the date the Compensation Deferral Agreement becomes irrevocable.

- (b) *Prior Year Election.* Except as otherwise provided in this Section 4.2, Participants may defer Compensation by filing a Compensation Deferral Agreement no later than December 31 of the year prior to the year in which the Compensation to be deferred is earned. A Compensation Deferral Agreement described in this paragraph shall become irrevocable with respect to such Compensation as of January 1 of the year in which such Compensation is earned.
- (c) *Performance-Based Compensation.* Participants may file a Compensation Deferral Agreement with respect to Performance-Based Compensation no later than the date that is six months before the end of the performance period, provided that:
- (i) the Participant performs services continuously from the later of the beginning of the performance period or the date the criteria are established through the date the Compensation Deferral Agreement is submitted; and
 - (ii) the Compensation is not readily ascertainable as of the date the Compensation Deferral Agreement is filed.

A Compensation Deferral Agreement becomes irrevocable with respect to Performance-Based Compensation as of the day immediately following the latest date for filing such election.

Western Digital Corporation Deferred Compensation Plan

- (d) *Sales Commissions.* Sales commissions (as defined in Treas. Reg. Section 1.409A-2(a)(12)(i)) are considered to be earned by the Participant in the taxable year of the Participant in which the customer remits payment to the Employer. The Compensation Deferral Agreement must be filed before the last day of the year preceding the year in which the sales commissions are earned, and becomes irrevocable after that date.
 - (e) *Fiscal Year Compensation.* A Participant may defer Fiscal Year Compensation by filing a Compensation Deferral Agreement prior to the first day of the fiscal year or years in which such Fiscal Year Compensation is earned. The Compensation Deferral Agreement described in this paragraph becomes irrevocable on the first day of the fiscal year or years to which it applies.
 - (f) *Short-Term Deferrals.* Compensation that meets the definition of a “short-term deferral” described in Treas. Reg. Section 1.409A-1(b)(4) may be deferred in accordance with the rules of Article VII, applied as if the date the Substantial Risk of Forfeiture lapses is the date payments were originally scheduled to commence; provided, however, that the provisions of Section 7.3 shall not apply to payments attributable to a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)).
 - (g) *Certain Forfeitable Rights.* With respect to a legally binding right to a payment in a subsequent year that is subject to a forfeiture condition requiring the Participant’s continued services for a period of at least 12 months from the date the Participant obtains the legally binding right, an election to defer such Compensation may be made on or before the 30th day after the Participant obtains the legally binding right to the Compensation, provided that the election is made at least 12 months in advance of the earliest date at which the forfeiture condition could lapse. The Compensation Deferral Agreement described in this paragraph becomes irrevocable upon receipt and acceptance by the Company prior to the end of such 30-day period. If the forfeiture condition applicable to the payment lapses before the end of the required service period as a result of the Participant’s death or disability (as defined in Treas. Reg. Section 1.409A-3(i)(4)) or upon a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)), the Compensation Deferral Agreement will be void unless it would be considered timely under another rule described in this Section.
 - (h) *Company Awards.* Participating Employers may unilaterally provide for deferrals of Company awards prior to the date of such awards. Deferrals of Company awards (such as sign-on, retention, or severance pay) may be negotiated with a Participant prior to the date the Participant has a legally binding right to such Compensation.
 - (i) *“Evergreen” Deferral Elections.* Compensation Deferral Agreements will continue in effect for each subsequent year or performance period. Such
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Western Digital Corporation Deferred Compensation Plan

“evergreen” Compensation Deferral Agreements will become effective with respect to an item of Compensation on the date such election becomes irrevocable under this Section 4.2. An evergreen Compensation Deferral Agreement may be terminated or modified prospectively with respect to Compensation for which such election remains revocable under this Section 4.2. A Participant whose Compensation Deferral Agreement is cancelled in accordance with Section 4.6 will be required to file a new Compensation Deferral Agreement under this Article IV in order to recommence Deferrals under the Plan.

- 4.3 Allocation of Deferrals. A Compensation Deferral Agreement may allocate Deferrals to one or more Specified Date Accounts and/or to the Retirement/Termination Account. If a Participant allocates Deferrals to a Specified Date Account, the Participant shall designate the Plan Year in which such Deferrals are to be paid pursuant to Section 6.1(c); provided, however that, unless otherwise established by the Committee, the Plan Year so designated may not be earlier than the second Plan Year that follows the Plan Year in which such Compensation is credited to an Account.
- 4.4 Deductions from Pay. The Committee has the authority to determine the payroll practices under which any component of Compensation subject to a Compensation Deferral Agreement will be deducted from a Participant’s Compensation.
- 4.5 Vesting. Participant Deferrals shall be 100% vested at all times; provided, however, that in the event a Participant forfeits any amount under a Long-Term Retention Agreement between the Participant and the Company, any portion of which was deferred under this Plan, the corresponding portion of the Participant’s Account Balance hereunder (including any Earnings thereon) shall be subject to forfeiture on the same terms and conditions set forth in such Long-Term Retention Agreement.
- 4.6 Cancellation of Deferrals. The Committee may permit a Participant to cancel the Participant’s Deferrals: (i) for the balance of the Plan Year in which an Unforeseeable Emergency occurs, (ii) if the Participant receives a hardship distribution under the Employer’s qualified 401(k) plan, through the end of the Plan Year in which the six month anniversary of the hardship distribution falls, and (iii) during periods in which the Participant is unable to perform the duties of his or her position or any substantially similar position due to a mental or physical impairment that can be expected to result in death or last for a continuous period of at least six months, provided cancellation occurs by the later of the end of the taxable year of the Participant or the 15th day of the third month following the date the Participant incurs the disability (as defined in this paragraph).

ARTICLE V

Company Contributions

- 5.1 Discretionary Company Contributions. The Participating Employer may, from time to time in its sole and absolute discretion, credit Company Contributions for a Plan Year to
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Western Digital Corporation Deferred Compensation Plan

any Participant in any amount determined by the Participating Employer. Such contributions will be credited to a Participant's Retirement/Termination Account as of the last day of the Plan Year. A Participant must be actively employed on the last day of a Plan Year (or have Separated from Service due to death or Retirement) in order to receive a Company Contribution for such Plan Year.

- 5.2 Vesting. Company Contributions described in Section 5.1, above, and the Earnings thereon, shall vest in accordance with the vesting schedule(s) governing employer contributions under the Company's qualified 401(k) plan. All Company Contributions shall become 100% vested upon the occurrence of the earliest of: (i) the Disability of the Participant while actively employed, (ii) the Retirement of the Participant, or (iii) a Change in Control. The Participating Employer may, at any time, in its sole discretion, increase a Participant's vested interest in a Company Contribution. The portion of a Participant's Accounts that remains unvested upon his or her Separation from Service after the application of the terms of this Section 5.2 shall be forfeited.
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ARTICLE VI

Benefits

6.1 Benefits, Generally. A Participant shall be entitled to the following benefits under the Plan:

- (a) *Retirement Benefit.* Upon the Participant's Separation from Service due to Retirement, he or she shall be entitled to a Retirement Benefit. The Retirement Benefit shall be equal to the vested portion of the Retirement/Termination Account and the unpaid balances of any Specified Date Accounts. The Retirement Benefit shall be based on the value of that Account(s) as of the end of the Plan Year in which Separation from Service occurs or such later date as the Committee, in its sole discretion, shall determine. Payment of the Retirement Benefit will be made or begin during the first 60 days of the Plan Year following the Plan Year in which Separation from Service occurs, provided, however, that with respect to a Participant who is a Specified Employee as of the date such Participant incurs a Separation from Service, subject to Section 6.1(e), payment will be made on the date specified above or, if later, on the first day of the seventh month following the month in which such Separation from Service occurs. If the Retirement Benefit is to be paid in the form of installments, any subsequent installment payments to a Specified Employee will be paid during the first 60 days of each Plan Year following the Plan Year in which the first installment was made.
 - (b) *Termination Benefit.* Upon the Participant's Separation from Service for reasons other than death, Disability or Retirement, he or she shall be entitled to a Termination Benefit. The Termination Benefit shall be equal to the vested portion of the Retirement/Termination Account and the unpaid balances of any Specified Date Accounts. The Termination Benefit shall be based on the value of that Account(s) as of the end of the month in which Separation from Service occurs or such later date as the Committee, in its sole discretion, shall determine. Payment of the Termination Benefit will be made the first day of the month following the month in which Separation from Service occurs; provided, however, that with respect to a Participant who is a Specified Employee as of the date such Participant incurs a Separation from Service, subject to Section 6.1(e), payment will be made on the first day of the seventh month following the month in which such Separation from Service occurs.
 - (c) *Specified Date Benefit.* If the Participant has established one or more Specified Date Accounts, he or she shall be entitled to a Specified Date Benefit with respect to each such Specified Date Account. The Specified Date Benefit shall be equal to the vested portion of the Specified Date Account, based on the value of that Account as of the date of payment. Payment of the Specified Date Benefit will be made or begin within the first 60 days of the designated Plan Year.
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Western Digital Corporation Deferred Compensation Plan

- (d) *Disability Benefit.* Upon a determination by the Committee that a Participant is Disabled, he or she shall be entitled to a Disability Benefit. The Disability Benefit shall be equal to the vested portion of the Retirement/Termination Account and the unpaid balances of any Specified Date Accounts. If the Participant is eligible to Retire, the Disability Benefit shall be based on the value of the Accounts as of the last day of the Plan Year in which Disability occurs and will be paid within the first 60 days of the following Plan Year. If the Participant is not eligible to Retire, the Disability Benefit shall be based on the value of the Accounts as of the last day of the month in which Disability occurs and will be paid within 60 days following the Committee's determination.
 - (e) *Death Benefit.* In the event of the Participant's death, his or her designated Beneficiary(ies) shall be entitled to a Death Benefit. The Death Benefit shall be equal to the vested portion of the Retirement/Termination Account and the unpaid balances of any Specified Date Accounts. If payments from the Retirement/Termination Account had not commenced as of the date of death, the Death Benefit shall be based on the value of the Accounts as of the end of the Plan Year in which death occurred, with payment made during the first 60 days of the following Plan Year.
 - (f) *Unforeseeable Emergency Payments.* A Participant who experiences an Unforeseeable Emergency may submit a written request to the Committee to receive payment of all or any portion of his or her vested Accounts. Whether a Participant or Beneficiary is faced with an Unforeseeable Emergency permitting an emergency payment shall be determined by the Committee based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be reimbursed through insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of Deferrals under this Plan. If an emergency payment is approved by the Committee, the amount of the payment shall not exceed the amount reasonably necessary to satisfy the need, taking into account the additional compensation that is available to the Participant as the result of cancellation of deferrals to the Plan, including amounts necessary to pay any taxes or penalties that the Participant reasonably anticipates will result from the payment. The amount of the emergency payment shall be subtracted first from the vested portion of the Participant's Retirement/Termination Account until depleted and then from the vested Specified Date Accounts, beginning with the Specified Date Account with the latest payment commencement date. Emergency payments shall be paid in a single lump sum within the 90-day period following the date the payment is approved by the Committee.
 - (g) *Voluntary Withdrawals of Grandfathered Accounts.* A Participant or Beneficiary may elect at any time to voluntarily withdraw all of the vested amounts credited to his or her Grandfathered Account. If such a withdrawal is requested, an amount equal to 10% of the vested balance of the Grandfathered Account shall be
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Western Digital Corporation Deferred Compensation Plan

forfeited, and the Participant shall not be permitted to make Deferrals to the Plan in any Plan Year following the Plan Year in which the withdrawal is made.

6.2 Form of Payment.

- (a) *Retirement Benefit.* A Participant who is entitled to receive a Retirement Benefit shall receive payment of such benefit in a single lump sum, unless the Participant elects on his or her initial Compensation Deferral Agreement to have such benefit paid in one of the following alternative forms of payment (i) substantially equal annual installments over five, ten, 15 or 20 years, as elected by the Participant, or (ii) a lump sum payment of a percentage of the balance in the Retirement/ Termination Account, with the balance paid in substantially equal annual installments over a period of five, ten, 15 or 20 years, as elected by the Participant.
- (b) *Termination Benefit.* A Participant who is entitled to receive a Termination Benefit shall receive payment of such benefit in a single lump sum.
- (c) *Specified Date Benefit.* The Specified Date Benefit shall be paid in a single lump sum, unless the Participant elects on the Compensation Deferral Agreement with which the account was established to have the Specified Date Account paid in substantially equal annual installments over a period of two to five years, as elected by the Participant.

Notwithstanding any election of a form of payment by the Participant, upon the Participant's death, Disability, Retirement or Separation from Service, the unpaid balance of a Specified Date Account shall be paid in accordance with the provisions applicable to the Retirement, Termination, Disability or Death Benefit, as applicable.

- (d) *Disability Benefit.* A Participant who is entitled to receive a Disability Benefit shall receive payment of such benefit in a single lump sum, and any election hereunder to receive payment in any other form shall be disregarded.
 - (e) *Death Benefit.* A designated Beneficiary who is entitled to receive a Death Benefit shall receive payment of such benefit in accordance with the Payment Schedule applicable to the Retirement, Termination or Disability Benefit, as applicable, if death occurs after distribution of such benefits have commenced. If death occurs prior to the Participant's Retirement, Separation from Service or Disability, the Death Benefit shall be paid in a lump sum, unless the Participant had elected to have the Death Benefit paid in annual installments over five, ten, 15 or 20 years.
 - (f) *Change in Control.* Notwithstanding anything to the contrary contained herein, a Participant will receive his or her Retirement or Termination Benefit in a single
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Western Digital Corporation Deferred Compensation Plan

lump sum payment equal to the unpaid balance of all of his or her Accounts if Separation from Service occurs within 24 months following a Change in Control.

A Participant or Beneficiary receiving installment payments when a Change in Control occurs, will receive the remaining account balance in a single lump sum within 90 days following the Change in Control.

- (g) *Small Account Balances.* The Committee shall pay the value of the Participant's Accounts upon a Separation from Service in a single lump sum if the balance of such Accounts is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), provided the payment represents the complete liquidation of the Participant's interest in the Plan.
- (h) *Rules Applicable to Installment Payments.* If a Payment Schedule specifies installment payments, annual payments will be made beginning as of the payment commencement date for such installments and shall continue on each anniversary thereof until the number of installment payments specified in the Payment Schedule has been paid. The amount of each installment payment shall be determined by dividing (a) by (b), where (a) equals the Account Balance as of the Valuation Date and (b) equals the remaining number of installment payments.

For purposes of Article VII, installment payments will be treated as a single form of payment. If a lump sum equal to less than 100% of the Retirement/Termination Account is paid, the payment commencement date for the installment form of payment will be the first anniversary of the payment of the lump sum.

- (i) *Amounts allocated to Company Stock.* Any portion of a Participant's Account that is payable in Company Stock in accordance with Section 8.6 shall be paid in a single lump sum in an equivalent number of shares of Company Stock at the time distribution is otherwise scheduled to commence hereunder.
 - (j) *Payments from Grandfathered Accounts.* The forms of payment from Grandfathered Accounts are the same as the forms of payment set forth above, except as noted below:
 - a. Deferrals allocated to a Grandfathered In-Service Account shall be paid in a single lump sum.
 - b. In the event of the death of the Participant after payment of the Retirement, Termination or Disability Benefit has commenced, the Committee may in its discretion pay the remaining vested balance to the Beneficiary in a single lump sum. In the event of the death of the Participant prior to his or her Retirement, Separation from Service, or Disability, the Committee may elect in its sole discretion to pay the Death Benefit in a single lump sum or in annual installments over not more than five years, if the vested Account balance at the time of death is less than \$25,000.
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Western Digital Corporation Deferred Compensation Plan

- c. Disability is defined in accordance with the terms of the Grandfathered Plan and results in entitlement to a benefit only if the Participant is otherwise eligible to Retire or if the Committee in its discretion determines to treat the Participant as having Separated from Service.

6.3 Acceleration of or Delay in Payments. The Committee, in its sole and absolute discretion, may elect to accelerate the time or form of payment of a benefit owed to the Participant hereunder, provided such acceleration is permitted under Treas. Reg. Section 1.409A-3(j)(4). The Committee may also, in its sole and absolute discretion, delay the time for payment of a benefit owed to the Participant hereunder, to the extent permitted under Treas. Reg. Section 1.409A-2(b)(7). If the Plan receives a domestic relations order (within the meaning of Code Section 414(p)(1)(B)) directing that all or a portion of a Participant's Accounts be paid to an "alternate payee," any amounts to be paid to the alternate payee(s) shall be paid in a single lump sum.

ARTICLE VII

Modifications to Payment Schedules

- 7.1 Participant's Right to Modify. A Participant may modify any or all of the alternative Payment Schedules with respect to an Account, consistent with the permissible Payment Schedules available under the Plan, provided such modification complies with the requirements of this Article VII. Notwithstanding the foregoing, prior to January 1, 2009, the Committee may permit a Participant to modify any or all of the alternative Payment Schedules with respect to an Account, consistent with the permissible Payment Schedules available under the Plan, and without regard to Sections 7.2, 7.3 and 7.4 hereof, provided such modification complies with the requirements of IRS Notice 2007-86.
 - 7.2 Time of Election. The date on which a modification election is submitted to the Committee must be at least 12 months prior to the date on which payment is scheduled to commence under the Payment Schedule in effect prior to the modification.
 - 7.3 Date of Payment under Modified Payment Schedule. Except with respect to modifications that relate to the payment of a Death Benefit or a Disability Benefit, the date payments are to commence under the modified Payment Schedule must be no earlier than five years after the date payment would have commenced under the original Payment Schedule. Under no circumstances may a modification election result in an acceleration of payments in violation of Code Section 409A.
 - 7.4 Effective Date. A modification election submitted in accordance with this Article VII is irrevocable upon receipt by the Committee and becomes effective 12 months after such date.
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Western Digital Corporation Deferred Compensation Plan

- 7.5 Effect on Accounts. An election to modify a Payment Schedule is specific to the Account or payment event to which it applies, and shall not be construed to affect the Payment Schedules of any other Accounts.
- 7.6 Modifications to Grandfathered Accounts. Notwithstanding the preceding provisions of this Article VII, a Participant may modify the time at which payment of Deferrals attributable to a Grandfathered In-Service Account will be made only if the election is made no later than the first day of the Plan Year immediately preceding the Plan Year in which the In-Service Account would otherwise be paid and the new distribution date is at least two Plan Years after the Plan Year in which the Grandfathered In-Service Account would otherwise be paid. A Participant may modify the Payment Schedule applicable to a Grandfathered Retirement Benefit annually, provided the form is submitted at least three years prior to the Participant's Retirement.

ARTICLE VIII

Valuation of Account Balances; Investments

- 8.1 Valuation. Deferrals shall be credited to appropriate Accounts on the date such Compensation would have been paid to the Participant absent the Compensation Deferral Agreement. Company Contributions shall be credited to the Retirement/Termination Account at the times determined by the Committee. Valuation of Accounts shall be performed under procedures approved by the Committee.
- 8.2 Earnings Credit. Each Account will be credited with Earnings on each Business Day, based upon the Participant's investment allocation among a menu of investment options selected in advance by the Committee, in accordance with the provisions of this Article VIII ("investment allocation").
- 8.3 Investment Options. Investment options will be determined by the Committee, and may include a "Declared Rate Fund" which shall be credited with interest at a fixed rate declared annually by the Company prior to the beginning of each Plan Year. The Committee, in its sole discretion, shall be permitted to add or remove investment options from the Plan menu from time to time, provided that any such additions or removals of investment options shall not be effective with respect to any period prior to the effective date of such change.
- 8.4 Investment Allocations. A Participant's investment allocation constitutes a deemed, not actual, investment among the investment options comprising the investment menu. At no time shall a Participant have any real or beneficial ownership in any investment option included in the investment menu, nor shall the Participating Employer or any trustee acting on its behalf have any obligation to purchase actual securities as a result of a Participant's investment allocation. A Participant's investment allocation shall be used solely for purposes of adjusting the value of a Participant's Account Balances.
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Western Digital Corporation Deferred Compensation Plan

A Participant shall specify an investment allocation for each of his Accounts in accordance with procedures established by the Committee. Allocation among the investment options must be designated in increments of 1%. The Participant's investment allocation will become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day.

A Participant may change an investment allocation on any Business Day, both with respect to future credits to the Plan and with respect to existing Account Balances, in accordance with procedures adopted by the Committee. Changes shall become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day, and shall be applied prospectively.

The Committee may require that a minimum percentage of a Participant's Account be allocated to the Declared Rate Fund.

- 8.5 Unallocated Deferrals and Accounts. If the Participant fails to make an investment allocation with respect to an Account, such Account shall be invested in an investment option, the primary objective of which is the preservation of capital, as determined by the Committee.
 - 8.6 Company Stock. Notwithstanding any provision herein to the contrary, if a Participant elects to defer payment under the Plan of an award that by its terms is payable in Company Stock, such payment shall be made in shares of Company Stock at the time and in the manner prescribed under the Plan. The award will continue to be subject to the adjustment provisions of the applicable plan and/or award agreement. In the event that the Company Stock is no longer publicly traded, the Committee may make reasonable provision for such award to be paid in cash or other property as appropriate in the circumstances. In no event shall any portion of any such deferral be allocated to any investment option offered under the Plan.
 - 8.7 Dividend Equivalents. Dividend equivalents with respect to Company Stock will be credited to the applicable Accounts in the form of additional shares or units of Company Stock.
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ARTICLE IX

Administration

9.1 **Plan Administration.** This Plan shall be administered by the Committee which shall have discretionary authority to make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and to utilize its discretion to decide or resolve any and all questions, including but not limited to eligibility for benefits and interpretations of this Plan and its terms, as may arise in connection with the Plan. Claims for benefits shall be filed with the Committee and resolved in accordance with the claims procedures in Article XII.

9.2 **Administration Upon Change in Control.** Upon a Change in Control, the Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Committee. The individual who was the Chief Executive Officer of the Company (or if such person is unable or unwilling to act, the next highest ranking officer) prior to the Change in Control shall have the authority (but shall not be obligated) to appoint an independent third party to act as the Committee.

Upon such Change in Control, the Company may not remove the Committee, unless 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the removal and replacement of the Committee. Notwithstanding the foregoing, upon or after a Change in Control, neither the Committee nor the officer described above shall have authority to direct investment of trust assets under any rabbi trust described in Section 11.2 (which authority shall be exercised by the trustee of any such trust in accordance with the terms of the trust agreement).

The Participating Employer shall, with respect to the Committee identified under this Section: (i) pay all reasonable expenses and fees of the Committee, (ii) indemnify the Committee (including individuals serving as Committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Committee's duties hereunder, except with respect to matters resulting from the Committee's gross negligence or willful misconduct, and (iii) supply full and timely information to the Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Committee may reasonably require.

9.3 **Withholding.** The Participating Employer shall have the right to withhold from any payment due under the Plan (or with respect to any amounts credited to the Plan) any taxes required by law to be withheld in respect of such payment (or credit). Withholdings with respect to amounts credited to the Plan shall be deducted from Compensation that has not been deferred to the Plan.

9.4 **Indemnification.** The Participating Employers shall indemnify and hold harmless each employee, officer, director, agent or organization, to whom or to which are delegated duties, responsibilities, and authority under the Plan or otherwise with respect to

Western Digital Corporation Deferred Compensation Plan

administration of the Plan, including, without limitation, the Committee and its agents, against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him or it (including but not limited to reasonable attorney fees) which arise as a result of his or its actions or failure to act in connection with the operation and administration of the Plan to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty, or expense is not paid for by liability insurance purchased or paid for by the Participating Employer. Notwithstanding the foregoing, the Participating Employer shall not indemnify any person or organization if his or its actions or failure to act are due to gross negligence or willful misconduct or for any such amount incurred through any settlement or compromise of any action unless the Participating Employer consents in writing to such settlement or compromise.

- 9.5 Delegation of Authority. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who shall be legal counsel to the Company.
- 9.6 Binding Decisions or Actions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

ARTICLE X

Amendment and Termination

- 10.1 Amendment and Termination. The Company may at any time and from time to time amend the Plan or may terminate the Plan as provided in this Article X. Each Participating Employer may also terminate its participation in the Plan.
- 10.2 Amendments. The Company, by action taken by its Board of Directors, may amend the Plan at any time and for any reason, provided that any such amendment shall not reduce the vested Account Balances of any Participant accrued as of the date of any such amendment or restatement (as if the Participant had incurred a voluntary Separation from Service on such date) or reduce any rights of a Participant under the Plan or other Plan features with respect to Deferrals made prior to the date of any such amendment or restatement without the consent of the Participant.
- 10.3 Termination. The Company, by action taken by its Board of Directors, may terminate the Plan and pay Participants and Beneficiaries their Account Balances in a single lump sum at any time, to the extent and in accordance with Treas. Reg. Section 1.409A-3(j)(4)(ix). If a Participating Employer terminates its participation in the Plan, the benefits of affected Employees shall be paid at the time provided in Article VI.
- 10.4 Accounts Taxable Under Code Section 409A. The Plan is intended to constitute a plan of deferred compensation that meets the requirements for deferral of income taxation under
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Western Digital Corporation Deferred Compensation Plan

Code Section 409A. The Committee, pursuant to its authority to interpret the Plan, may sever from the Plan or any Compensation Deferral Agreement any provision or exercise of a right that otherwise would result in a violation of Code Section 409A.

ARTICLE XI

Informal Funding

- 11.1 General Assets. Obligations established under the terms of the Plan may be satisfied from the general funds of the Participating Employers, or a trust described in this Article XI. No Participant, spouse or Beneficiary shall have any right, title or interest whatever in assets of the Participating Employers. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Participating Employers and any Employee, spouse, or Beneficiary. To the extent that any person acquires a right to receive payments hereunder, such rights are no greater than the right of an unsecured general creditor of the Participating Employer.
- 11.2 Rabbi Trust. A Participating Employer may, in its sole discretion, establish a grantor trust, commonly known as a rabbi trust, as a vehicle for accumulating assets to pay benefits under the Plan. Payments under the Plan may be paid from the general assets of the Participating Employer or from the assets of any such rabbi trust. Payment from any such source shall reduce the obligation owed to the Participant or Beneficiary under the Plan.

ARTICLE XII

Claims

- 12.1 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Committee which shall make all determinations concerning such claim. Any claim filed with the Committee and any decision by the Committee denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the "Claimant").
- (a) *In General*. Notice of a denial of benefits (other than Disability benefits) will be provided within 90 days of the Committee's receipt of the Claimant's claim for benefits. If the Committee determines that it needs additional time to review the claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial 90-day period. The extension will not be more than 90 days from the end of the initial 90-day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Committee expects to make a decision.
- (b) *Disability Benefits*. Notice of denial of Disability benefits will be provided within forty-five (45) days of the Committee's receipt of the Claimant's claim for Disability benefits. If the Committee determines that it needs additional time to
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Western Digital Corporation Deferred Compensation Plan

review the Disability claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial 45-day period. If the Committee determines that a decision cannot be made within the first extension period due to matters beyond the control of the Committee, the time period for making a determination may be further extended for an additional 30 days. If such an additional extension is necessary, the Committee shall notify the Claimant prior to the expiration of the initial 30-day extension. Any notice of extension shall indicate the circumstances necessitating the extension of time, the date by which the Committee expects to furnish a notice of decision, the specific standards on which such entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim and any additional information needed to resolve those issues. A Claimant will be provided a minimum of 45 days to submit any necessary additional information to the Committee. In the event that a 30-day extension is necessary due to a Claimant's failure to submit information necessary to decide a claim, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the Claimant until the earlier of the date the Claimant responds to the request for additional information or the response deadline.

- (c) *Contents of Notice.* If a claim for benefits is completely or partially denied, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The notice shall: (i) cite the pertinent provisions of the Plan document, and (ii) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review. In the case of a complete or partial denial of a Disability benefit claim, the notice shall provide a statement that the Committee will provide to the Claimant, upon request and free of charge, a copy of any internal rule, guideline, protocol, or other similar criterion that was relied upon in making the decision.

- 12.2 Appeal of Denied Claims. A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with a committee designated to hear such appeals (the "Appeals Committee"). A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Appeals Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information: (i) was relied upon in making a benefits determination, (ii) was submitted, considered or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (iii) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The
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Western Digital Corporation Deferred Compensation Plan

Appeals Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

- (a) *In General.* Appeal of a denied benefits claim (other than a Disability benefits claim) must be filed in writing with the Appeals Committee no later than 60 days after receipt of the written notification of such claim denial. The Appeals Committee shall make its decision regarding the merits of the denied claim within 60 days following receipt of the appeal (or within 120 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.
 - (b) *Disability Benefits.* Appeal of a denied Disability benefits claim must be filed in writing with the Appeals Committee no later than 180 days after receipt of the written notification of such claim denial. The review shall be conducted by the Appeals Committee (exclusive of the person who made the initial adverse decision or such person's subordinate). In reviewing the appeal, the Appeals Committee shall: (i) not afford deference to the initial denial of the claim, (ii) consult a medical professional who has appropriate training and experience in the field of medicine relating to the Claimant's disability and who was neither consulted as part of the initial denial nor is the subordinate of such individual, and (iii) identify the medical or vocational experts whose advice was obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decision. The Appeals Committee shall make its decision regarding the merits of the denied claim within 45 days following receipt of the appeal (or within 90 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. Following its review of any additional information submitted by the Claimant, the Appeals Committee shall render a decision on its review of the denied claim.
 - (c) *Contents of Notice.* If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language.
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Western Digital Corporation Deferred Compensation Plan

The decision on review shall set forth: (i) the specific reason or reasons for the denial, (ii) specific references to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (iv) a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

- (d) For the denial of a Disability benefit, the notice will also include a statement that the Appeals Committee will provide, upon request and free of charge: (i) any internal rule, guideline, protocol or other similar criterion relied upon in making the decision, (ii) any medical opinion relied upon to make the decision, and (iii) the required statement under Section 2560.503-1(j)(5)(iii) of the Department of Labor regulations.

- 12.3 Claims Appeals Upon Change in Control. Upon a Change in Control, the Appeals Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Appeals Committee. Upon such Change in Control, the Company may not remove any member of the Appeals Committee, but may replace resigning members if 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the replacement.

The Appeals Committee shall have the exclusive authority at the appeals stage to interpret the terms of the Plan and resolve appeals under the Claims Procedure.

Each Participating Employer shall, with respect to the Committee identified under this Section: (i) pay its proportionate share of all reasonable expenses and fees of the Appeals Committee, (ii) indemnify the Appeals Committee (including individual committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Appeals Committee hereunder, except with respect to matters resulting from the Appeals Committee's gross negligence or willful misconduct, and (iii) supply full and timely information to the Appeals Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Appeals Committee may reasonably require.

- 12.4 Legal Action. A Claimant may not bring any legal action, including commencement of any arbitration, relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or her administrative remedies under such claims procedures.

If a Participant or Beneficiary prevails in a legal proceeding brought under the Plan to enforce the rights of such Participant or any other similarly situated Participant or Beneficiary, in whole or in part, the Participating Employer shall reimburse such Participant or Beneficiary for all legal costs, expenses, attorneys' fees and such other

Western Digital Corporation Deferred Compensation Plan

liabilities incurred as a result of such proceedings. If the legal proceeding is brought in connection with a Change in Control, or a “change in control” as defined in a rabbi trust described in Section 11.2, the Participant or Beneficiary may file a claim directly with the trustee for reimbursement of such costs, expenses and fees. For purposes of the preceding sentence, the amount of the claim shall be treated as if it were an addition to the Participant’s or Beneficiary’s Account Balance.

12.5 Discretion of Appeals Committee. All interpretations, determinations and decisions of the Appeals Committee with respect to any claim shall be made in its sole discretion, and shall be final and conclusive.

12.6 Arbitration.

(a) *Prior to Change in Control.* If, prior to a Change in Control, any claim or controversy between a Participating Employer and a Participant or Beneficiary is not resolved through the claims procedure set forth in Article XII, such claim shall be submitted to and resolved exclusively by expedited binding arbitration by a panel of three (3) arbitrators. Arbitration shall be conducted in accordance with the following procedures:

The complaining party shall promptly send written notice to the other party identifying the matter in dispute and the proposed remedy. Following the giving of such notice, the parties shall meet and attempt in good faith to resolve the matter. In the event the parties are unable to resolve the matter within 21 days, the parties shall meet and each select an arbitrator, and such arbitrators shall jointly select a third arbitrator, who shall together shall comprise the panel of three (3) arbitrators. The arbitration shall be administered exclusively in Orange County, California, by the American Arbitration Association in accordance with its Commercial Arbitration Rules.

Unless the parties agree otherwise, within 60 days of the selection of the arbitrators, a hearing shall be conducted before such arbitrators at a time and a place agreed upon by the parties. In the event the parties are unable to agree upon the time or place of the arbitration, the time and place shall be designated by the arbitrators after consultation with the parties. Within 30 days of the conclusion of the arbitration hearing, the arbitrators shall issue an award, accompanied by a written decision explaining the basis for the arbitrators’ award.

In any arbitration hereunder, the Participating Employer shall pay all administrative fees of the arbitration and all fees of the arbitrators, except that the Participant or Beneficiary may, if he/she/it wishes, pay up to one-half of those amounts. Each party shall pay its own attorneys’ fees, costs, and expenses. The arbitrators shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrators shall, upon an appropriate motion, dismiss any claim without an evidentiary

Western Digital Corporation Deferred Compensation Plan

hearing if the party bringing the motion establishes that it would be entitled to summary judgment if the matter had been pursued in court litigation.

The parties shall be entitled to discovery as follows: Each party may take no more than three depositions. The Participating Employer may depose the Participant or Beneficiary plus two other witnesses, and the Participant or Beneficiary may depose the Participating Employer, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, plus two other witnesses. Each party may make such reasonable document discovery requests as are allowed in the discretion of the arbitrator.

The decision of the arbitrators shall be final, binding, and non-appealable, and may be enforced as a final judgment in any court of competent jurisdiction.

This arbitration provision of the Plan shall extend to claims against any parent, subsidiary, or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, Participant, Beneficiary, or agent of any party, or of any of the above, and shall apply as well to claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law or under this Plan.

Notwithstanding the foregoing, and unless otherwise agreed between the parties, either party may apply to a court for provisional relief, including a temporary restraining order or preliminary injunction, on the ground that the arbitration award to which the applicant may be entitled may be rendered ineffectual without provisional relief.

Any arbitration hereunder shall be conducted in accordance with the Federal Arbitration Act: provided, however, that, in the event of any inconsistency between the rules and procedures of the Act and the terms of this Plan, the terms of this Plan shall prevail.

If any of the provisions of this Section 12.6(a) are determined to be unlawful or otherwise unenforceable, in the whole part, such determination shall not affect the validity of the remainder of this section and this section shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and to insure that the resolution of all conflicts between the parties, including those arising out of statutory claims, shall be resolved by neutral, binding arbitration. If a court should find that the provisions of this Section 12.6(a) are not absolutely binding, then the parties intend any arbitration decision and award to be fully admissible in evidence in any subsequent action, given great weight by any finder of fact and treated as determinative to the maximum extent permitted by law.

The parties do not agree to arbitrate any putative class action or any other representative action. The parties agree to arbitrate only the claims(s) of a single Participant or Beneficiary.

Western Digital Corporation Deferred Compensation Plan

- (b) *Upon Change in Control.* If, upon the occurrence of a Change in Control, any dispute, controversy or claim arises between a Participant or Beneficiary and the Participating Employer out of or relating to or concerning the provisions of the Plan, such dispute, controversy or claim shall be finally settled by a court of competent jurisdiction which, notwithstanding any other provision of the Plan, shall apply a de novo standard of review to any determination made by the Company or its Board of Directors, a Participating Employer, the Committee, or the Appeals Committee.

ARTICLE XIII

General Provisions

- 13.1 Assignment. No interest of any Participant, spouse or Beneficiary under this Plan and no benefit payable hereunder shall be assigned as security for a loan, and any such purported assignment shall be null, void and of no effect, nor shall any such interest or any such benefit be subject in any manner, either voluntarily or involuntarily, to anticipation, sale, transfer, assignment or encumbrance by or through any Participant, spouse or Beneficiary. Notwithstanding anything to the contrary herein, however, the Committee has the discretion to make payments to an alternate payee in accordance with the terms of a domestic relations order (as defined in Code Section 414(p)(1)(B)).
- The Company may assign any or all of its liabilities under this Plan in connection with any restructuring, recapitalization, sale of assets or other similar transactions affecting a Participating Employer without the consent of the Participant.
- 13.2 No Legal or Equitable Rights or Interest. No Participant or other person shall have any legal or equitable rights or interest in this Plan that are not expressly granted in this Plan. Participation in this Plan does not give any person any right to be retained in the service of the Participating Employer. The right and power of a Participating Employer to dismiss or discharge an Employee is expressly reserved. The Participating Employers make no representations or warranties as to the tax consequences to a Participant or a Participant's beneficiaries resulting from a deferral of income pursuant to the Plan.
- 13.3 No Employment Contract. Nothing contained herein shall be construed to constitute a contract of employment between an Employee and a Participating Employer.
- 13.4 Notice. Any notice or filing required or permitted to be delivered to the Committee under this Plan shall be delivered in writing, in person, or through such electronic means as is established by the Committee. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Written transmission shall be sent by certified mail to:

**RETIREMENT, SEVERANCE, AND ADMINISTRATIVE COMMITTEE
WESTERN DIGITAL CORPORATION**

**20511 LAKE FOREST DRIVE
LAKE FOREST, CA 92630**

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing or hand-delivered, or sent by mail to the last known address of the Participant.

- 13.5 Headings. The headings of Sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.
- 13.6 Invalid or Unenforceable Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Committee may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.
- 13.7 Lost Participants or Beneficiaries. Any Participant or Beneficiary who is entitled to a benefit from the Plan has the duty to keep the Committee advised of his or her current mailing address. If benefit payments are returned to the Plan or are not presented for payment after a reasonable amount of time, the Committee shall presume that the payee is missing. The Committee, after making such efforts as in its discretion it deems reasonable and appropriate to locate the payee, shall stop payment on any uncashed checks and may discontinue making future payments until contact with the payee is restored.
- 13.8 Facility of Payment to a Minor. If a distribution is to be made to a minor, or to a person who is otherwise incompetent, then the Committee may, in its discretion, make such distribution: (i) to the legal guardian, or if none, to a parent of a minor payee with whom the payee maintains his or her residence, or (ii) to the conservator or committee or, if none, to the person having custody of an incompetent payee. Any such distribution shall fully discharge the Committee, the Company, and the Plan from further liability on account thereof.
- 13.9 Governing Law. To the extent not preempted by ERISA, the laws of the State of California shall govern the construction and administration of the Plan.
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Western Digital Corporation Deferred Compensation Plan

IN WITNESS WHEREOF, the undersigned executed this Plan as of the 28th day of October, 2008, to be effective as of the Effective Date.

Western Digital Corporation

By: Jackie DeMaria (Print Name)

Its: Vice President, Human Resources (Title)

/s/ Jackie DeMaria (Signature)

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

I, John F. Coyne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2008

/s/ John F. Coyne

John F. Coyne
President and Chief Executive Officer

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

I, Timothy M. Leyden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Digital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2008

/s/ Timothy M. Leyden

Timothy M. Leyden
*Executive Vice President and Chief
Financial Officer*

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

Certification of Chief Executive Officer

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

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 26, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2008

/s/ John F. Coyne

John F. Coyne

President and Chief Executive Officer

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

Certification of Chief Financial Officer

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

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended September 26, 2008 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2008

/s/ Timothy M. Leyden

Timothy M. Leyden
*Executive Vice President and Chief
Financial Officer*