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 December 26, 2008

Or

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

For the transition period from to

Commission file number 1-8703

WESTERN DIGITAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**33-0956711** (I.R.S. Employer Identification No.)
20511 Lake Forest Drive **Lake Forest, California** (Address of principal executive offices)	**92630** (Zip Code)

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 o

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

As of the close of business on January 22, 2009, 222,608,707 shares of common stock, par value $.01 per share, were outstanding.

WESTERN DIGITAL CORPORATION

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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 December 26, 2008 and December 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 and GreenPower are trademarks of Western Digital Technologies, Inc. and/or its affiliates. All other trademarks mentioned are the property of their respective owners.

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PART I. FINANCIAL INFORMATION
Item 1. *FINANCIAL STATEMENTS*

WESTERN DIGITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par values; unaudited)

	Dec. 26, 2008	Jun. 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,376	$ 1,104
Accounts receivable, net	926	1,010
Inventories	446	456
Advances to suppliers	18	36
Other current assets	129	125
Total current assets	2,895	2,731
Property and equipment, net	1,620	1,668
Goodwill	116	116
Other intangible assets, net	70	81
Other non-current assets	270	279
Total assets	$ 4,971	$ 4,875
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,075	$ 1,181
Accrued expenses	243	266
Accrued warranty	94	90
Current portion of long-term debt	60	27
Total current liabilities	1,472	1,564
Long-term debt	444	482
Other liabilities	134	133
Total liabilities	2,050	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	909	906
Accumulated comprehensive loss	(11)	(12)
Retained earnings	2,047	1,822
Treasury stock — common shares at cost; 1 share	(26)	(22)
Total shareholders' equity	2,921	2,696
Total liabilities and shareholders' equity	$ 4,971	$ 4,875

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		SIX MONTHS ENDED	
	Dec. 26, 2008	Dec. 28, 2007	Dec. 26, 2008	Dec. 28, 2007
Revenue, net	$ 1,823	$ 2,204	$ 3,933	$ 3,970
Cost of revenue	1,533	1,691	3,219	3,134
Gross margin	290	513	714	836
Operating expenses:				
Research and development	119	122	252	213
Selling, general and administrative	42	59	99	107
Acquired in-process research and development	—	—	—	49
Restructuring	113	—	113	—
Total operating expenses	274	181	464	369
Operating income	16	332	250	467
Other income (expense):				
Interest income	2	8	6	17
Interest and other expense	(11)	(24)	(19)	(30)
Total other expense, net	(9)	(16)	(13)	(13)
Income before income taxes	7	316	237	454
Income tax expense (benefit)	(7)	11	12	80
Net income	$ 14	$ 305	$ 225	$ 374
Income per common share:				
Basic	$ 0.06	$ 1.39	$ 1.01	$ 1.71
Diluted	$ 0.06	$ 1.35	$ 1.00	$ 1.66
Weighted average shares outstanding:				
Basic	222	220	222	219
Diluted	224	226	225	225

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

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

	SIX MONTHS ENDED	
	Dec. 26, 2008	Dec. 28, 2007
Cash flows from operating activities		
Net income	$ 225	$ 374
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	239	189
Stock-based compensation	21	17
Deferred income taxes	(7)	62
Loss on investments	9	8
Non-cash portion of restructuring	80	—
Acquired in-process research and development	—	49
Changes in:		
Accounts receivable	84	(270)
Inventories	10	5
Advances to suppliers	18	54
Accounts payable	(63)	202
Accrued expenses	11	39
Other assets and liabilities	(26)	9
Net cash provided by operating activities	601	738
Cash flows from investing activities		
Acquisitions, net of cash acquired	—	(915)
Purchases of property and equipment	(302)	(332)
Purchases of investments	—	(102)
Sales and maturities of investments	1	309
Net cash used in investing activities	(301)	(1,040)
Cash flows from financing activities		
Issuance of common stock under employee plans	12	34
Taxes on issuance of common stock under employee plans	(3)	(2)
Tax benefit from employee stock plans	4	—
Repurchases of common stock	(36)	(16)
Repayment of acquired convertible debentures	—	(250)
Proceeds from debt	—	760
Repayment of debt	(5)	(7)
Net cash (used in) provided by financing activities	(28)	519
Net increase in cash and cash equivalents	272	217
Cash and cash equivalents, beginning of period	1,104	700
Cash and cash equivalents, end of period	$ 1,376	$ 917
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 7	$ 7
Cash paid for interest	$ 4	$ 15
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.

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. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

2. Supplemental Financial Statement Data

Inventories

	Dec. 26, 2008	Jun. 27, 2008
	(in millions)	
Raw materials and component parts	**$ 124**	$ 144
Work-in-process	**159**	145
Finished goods	**163**	167
Total inventories	**$ 446**	$ 456

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 claims differ significantly from estimates, future results of operations could be materially affected. Also, during a period of declining revenue, the percentage of warranty utilization to revenue may increase. 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 and six months ended December 26, 2008 and December 28, 2007 were as follows (in millions):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	Dec. 26, 2008	**Dec. 28, 2007**	**Dec. 26, 2008**	**Dec. 28, 2007**
Warranty accrual, beginning of period	**$ 119**	$ 97	**$ 114**	$ 90
Charges to operations	**30**	25	**61**	50
Utilization	**(26)**	(17)	**(48)**	(33)
Changes in estimate related to pre-existing warranties	**(2)**	(3)	**(6)**	(5)
Warranty accrual, end of period	**$ 121**	$ 102	**$ 121**	$ 102

Accrued warranty also includes amounts classified in non-current liabilities of $27 million at December 26, 2008, $24 million at June 27, 2008, and $22 million at December 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		SIX MONTHS ENDED	
	Dec. 26, 2008	**Dec. 28, 2007**	**Dec. 26, 2008**	**Dec. 28, 2007**
Net income	**$ 14**	$ 305	**$ 225**	$ 374
Weighted average shares outstanding:				
Basic	**222**	220	**222**	219
Employee stock options and other	**2**	6	**3**	6
Diluted	**224**	226	**225**	225
Income per common share:				
Basic	**$ 0.06**	$ 1.39	**$ 1.01**	$ 1.71
Diluted	**$ 0.06**	$ 1.35	**$ 1.00**	$ 1.66
Anti-dilutive common share equivalents excluded*	**5**	2	**4**	2

* 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 2.75% as of December 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 December 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 and six months ended December 26, 2008, the Company charged to expense $5 million and $10 million, respectively, for stock-based compensation related to options issued under stock option plans and the Employee Stock Purchase Plan ("ESPP"), compared to $4 million and $8 million in the comparative prior-year period. At December 26, 2008, total compensation cost related to unvested stock options and ESPP rights issued to employees but not yet recognized was $41 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.6 years.

Fair Value Disclosures

The fair value of stock options granted during the three and six months ended December 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 and six months ended December 26, 2008 and December 28, 2007 was estimated using the following weighted average assumptions:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	Dec. 26, 2008	**Dec. 28, 2007**	**Dec. 26, 2008**	**Dec. 28, 2007**
Suboptimal exercise factor	**1.73**	1.66	**1.73**	1.57
Range of risk-free interest rates	**0.38% to 1.80%**	3.31% to 3.96%	**0.38% to 3.44%**	3.31% to 4.38%
Range of expected stock price volatility	**0.49 to 0.71**	0.37 to 0.63	**0.43 to 0.71**	0.33 to 0.67
Weighted average expected volatility	**0.56**	0.46	**0.49**	0.47
Post-vesting termination rate	**4.15%**	5.67%	**4.39%**	5.38%
Dividend yield	**—**	—	**—**	—
Fair value	**$7.01**	$10.71	**$9.62**	$8.94

The weighted average expected term of the Company's stock options for the three and six months ended December 26, 2008 was 4.79 years and 5.49 years, respectively, compared to 5.51 years and 5.29 years in the comparative prior-year period.

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 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 and six months ended December 26, 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):

	Number of Shares	Weighted Average Exercise Price Per Share	Remaining Contractual Life (in years)	Aggregate Intrinsic Value
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	9.6	$ 16.47		
Granted	0.2	15.17		
Exercised	(0.1)	8.33		
Canceled or expired	—	—		
Options outstanding at December 26, 2008	9.7	$ 16.48	5.5	$ 15
Exercisable at December 26, 2008	5.2	$ 10.93	4.7	$ 15

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 December 26, 2008 for those awards that have an exercise price currently below the quoted price. As of December 26, 2008, the Company had options outstanding to purchase an aggregate of 2.9 million shares with an exercise price below the quoted price of the Company's stock resulting in an aggregate intrinsic value of $15 million. During the three and six months ended December 26, 2008, the aggregate intrinsic value of options exercised under the Company's stock option plans was $0.3 million and $1.6 million, respectively, determined as of the date of exercise. The aggregate intrinsic value of options exercised under the Company's stock option plans during the three and six months ended December 28, 2007 was $26 million and $40 million respectively.

Deferred Stock Compensation

The Company granted approximately 0.7 million restricted stock units during the six months ended December 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 $16 million at the date of grant. As of December 26, 2008, the aggregate unamortized fair value of all unvested restricted stock and restricted stock unit awards was $46 million and will be amortized on a straight-line basis over a weighted average vesting period of approximately 2.1 years. For the three and six months ended December 26, 2008, the Company charged to expense approximately $6 million and $11 million, respectively, related to restricted stock and restricted stock unit awards that were vested during the period, compared to $5 million and $9 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 matters below, individually and in the aggregate, would not be material to the Company's financial condition, results of operations or cash flows. 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, Convolve, Inc. ("Convolve") 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. Plaintiff is seeking unspecified monetary damages and injunctive relief. On October 10, 2008, Convolve amended its complaint to allege infringement of only the '473 patent. The '473 patent allegedly relates to interface technology to select between certain modes of a disk drive's operations relating to speed and noise. The Company intends to defend itself vigorously in this matter.

On December 8, 2008, MagSil Corporation and the Massachusetts Institute of Technology filed a complaint in the District of Delaware against the Company and seven other companies in the disk drive industry alleging infringement of U.S. Patent Nos. 5,629,922 and 5,835,314. Plaintiffs are seeking unspecified monetary damages and injunctive relief. The asserted patents allegedly relate to tunneling magnetoresistive technology. The Company intends to defend itself vigorously in this matter.

7. Income Taxes

The Company's income tax benefit for the three months ended December 26, 2008 was a net $7 million which consists of a tax provision of $6 million, offset by a $6 million tax benefit related to the extension of the research and development tax credit, which was enacted into law in October 2008, and a $7 million favorable adjustment to previously recorded tax accruals to reflect a change in the Company's outlook of future income before taxes. The Company's income tax expense for the six months ended December 26, 2008 was $12 million. The 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 December 26, 2008, the Company recognized a $2 million increase in the liability for unrecognized tax benefits. As of December 26, 2008, the Company had approximately $115 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 December 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 December 26, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such value (in millions):

		Fair Value Measurements at Reporting Date using		
	Dec. 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	$647	$647	$—	$—
Short-term investments	2	—	—	2
Auction-rate securities	19	—	—	19
Liabilities				
Foreign exchange contracts	$ 16	$ —	$16	$—

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

Money Market Funds

The Company's money market funds are AAA rated institutional money market funds which are invested in U.S. Treasury securities and are recorded within cash and cash equivalents in the condensed consolidated balance sheet.

Short-Term Investments

The Company's short-term investments are fixed income securities and are recorded within other current assets in the condensed 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 condensed 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. Foreign exchange contracts are classified within accrued expenses in the condensed consolidated balance sheet.

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

	Short-term investments	Auction-rate securities	Total
June 27, 2008	$ 3	$ 28	$ 31
Redemptions	(1)	—	(1)
Other-than-temporary impairment recognized in earnings	—	(3)	(3)
September 26, 2008	2	25	27
Redemptions	—	—	—
Other-than-temporary impairment recognized in earnings	—	(6)	(6)
December 26, 2008	$ 2	$ 19	$ 21

9. Restructuring

On December 17, 2008, the Company announced a restructuring plan to realign its cost structure as a result of a softer demand environment. The restructuring plan includes the closure of one of the Company's hard drive manufacturing facilities in Thailand, the closure or disposal of one of its substrate manufacturing facilities in Malaysia, and headcount reductions throughout the world. Implementation of the plan will continue through the end of the Company's third fiscal quarter and is expected to result in total head count reductions of approximately seven percent, or approximately 3,400 people. The total cost of the restructuring is currently estimated to be approximately $140 million, $113 million of which was charged to operations during the three months ended December 26, 2008.

The following table summarizes the Company's restructuring activities for the three months ended December 26, 2008 (in millions):

	Employee Termination Benefits	Impaired Property and Equipment and Other Intangible Assets	Contract Termination Costs	Total
Balance at September 26, 2008	$—	$ —	$—	$ —
Restructuring charge	32	80	1	113
Non-cash charge	—	(80)	—	(80)
Balance at December 26, 2008	$32	$ —	$ 1	$ 33

The asset impairment charge of $80 million consists of $75 million primarily related to the land, buildings, machinery and equipment at the manufacturing facilities in Thailand and Malaysia that are planned to be closed or disposed of and $5 million related to a customer relationships intangible asset acquired from Komag, Incorporated (for further description of the acquisition, see the Company's Annual Report on Form 10-K for the year ended June 27, 2008). The impairment charge is based on the excess of the carrying values over the estimated fair values of the assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The fair values of the land, buildings, and equipment were estimated using the market approach. The intangible asset was valued using the income approach. The accrued restructuring balance of $33 million is expected to be paid in the Company's third fiscal quarter and is included in accrued expenses on the accompanying condensed consolidated balance sheet.

10. 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 the first quarter of fiscal 2009 had no impact on the Company's 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) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for the Company is the first quarter of fiscal 2010. SFAS 141(R) will impact the Company's consolidated financial statements for business combinations with an acquisition date on or after adoption in the first quarter of fiscal 2010.

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. 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.

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:

- *demand for hard drives in the various markets and factors contributing to such demand;*
- *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;*
- *emergence of competing storage technologies;*
- *expectations regarding our financial results for the third quarter and traditional seasonal demand and pricing trends;*
- *the expected size, type and timing of charges and future annual savings associated with our business restructuring plan;*
- *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 finished enclosures, 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 2 terabytes (“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 GreenPower™ 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.

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 ("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 SATA, Small Computer System Interface, or SCSI, Serial Attached SCSI, or SAS, and Fibre Channel-Arbitrated Loop, or 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 January 2009, we began shipping our WD Caviar® 3.5-inch family of drives at 500 GB per platter (approximately 400 gigabits per square inch) areal density. In September 2008, we began shipping our WD Scorpio® Blue™ 2.5-inch 500 GB drives at 250 GB per platter (approximately 400 gigabits per square inch) areal density.

Second 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				SIX MONTHS ENDED			
	Dec. 26, 2008		**Dec. 28, 2007**		**Dec. 26, 2008**		**Dec. 28, 2007**	
Net revenue	**$1,823**	**100.0%**	$2,204	100.0%	**$3,933**	**100.0%**	$3,970	100.0%
Gross margin	**290**	**15.9**	513	23.3	**714**	**18.2**	836	21.1
Total operating expenses	**274**	**15.0**	181	8.2	**464**	**11.8**	369	9.3
Operating income	**16**	**0.9**	332	15.1	**250**	**6.4**	467	11.8
Net income	**14**	**0.8**	305	13.8	**225**	**5.7**	374	9.4

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

- Consolidated net revenue totaled $1.8 billion.
- 65% 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 54% in the prior-year period.

- Hard drive unit shipments increased by 4% over the prior-year period to 35.5 million.
- Gross margin decreased to 15.9%, compared to 23.3% for the prior-year period.
- Operating income, including a restructuring charge of $113 million, was $16 million, a decrease of 95% over the prior-year period.
- We generated $300 million in cash flow from operations in the second quarter of 2009, and we finished the quarter with $1.4 billion in cash and cash equivalents.

For the March quarter, we expect our revenue and gross margin percentage to be down from the December quarter as a result of the global macroeconomic conditions with credit continuing to be tight for our customers, inventory rationalization continuing throughout all channels and pricing to continue to be competitive.

Restructuring

On December 17, 2008, we announced a restructuring plan to realign our cost structure as a result of a softer demand environment. The restructuring plan includes the closure of one of our hard drive manufacturing facilities in Thailand, the closure or disposal of one of our substrate manufacturing facilities in Malaysia, and headcount reductions throughout the world. Implementation of the plan will continue through the end of our third fiscal quarter and we expect it to result in total headcount reductions of approximately seven percent, or approximately 3,400 people. We currently estimate the total cost of the restructuring to be approximately $140 million, $113 million of which was charged to operations during the three months ended December 26, 2008. These costs consisted of $80 million of asset impairment charges, $32 million of employee termination benefits and $1 million of contract termination costs. The asset impairment charge of $80 million consists of $75 million primarily related to the land, buildings, machinery and equipment at the manufacturing facilities in Thailand and Malaysia that are planned to be closed or disposed of and $5 million related to a customer relationships intangible asset acquired from Komag, Incorporated (for further description of the acquisition, see the Company's Annual Report on Form 10-K for the year ended June 27, 2008). We expect the estimated remaining restructuring charges of approximately $27 million, consisting of approximately $17 million of contract termination costs and approximately $10 million of other exit costs, to be primarily incurred in our third fiscal quarter of 2009. We estimate the total cash utilized by the restructuring activities to be approximately $60 million, the majority of which will be spent in the third fiscal quarter. There were no material cash expenditures related to the restructuring in the second fiscal quarter of 2009.

Results of Operations

On September 5, 2007, we completed our acquisition (the "Acquisition") of Komag, Incorporated ("Komag"). We further described the Acquisition in our Annual Report on Form 10-K for the year ended June 27, 2008. In accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), operating results for Komag prior to the date of the Acquisition are not included in our operating results and are therefore not discussed. Accordingly, revenues and expenses for the three and six months ended December 26, 2008 and the three months ended December 28, 2007 reflect the addition of results from our media operations while results for the six months ended December 26, 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 & ASP)	THREE MONTHS ENDED Dec. 26, 2008	THREE MONTHS ENDED Dec. 28, 2007	Percentage Change	SIX MONTHS ENDED Dec. 26, 2008	SIX MONTHS ENDED Dec. 28, 2007	Percentage Change
Net revenue	**$1,823**	$2,204	(17)%	**$3,933**	$3,970	(1)%
Unit shipments*	**35.5**	34.2	4	**74.9**	63.6	18
ASP (per unit)*	**$ 51**	$ 61	(16)	**$ 52**	$ 60	(13)
Revenues by Geography (%)*						
Americas	**23%**	32%		**23%**	33%	
Europe, Middle East, and Africa	**29**	32		**29**	32	
Asia	**48**	36		**48**	35	
Revenues by Channel (%)*						
OEM	**57%**	48%		**57%**	49%	
Distributors	**21**	34		**23**	33	
Branded products	**22**	18		**20**	18	
Revenues by Product (%)*						
Non-desktop sources	**65%**	54%		**63%**	54%	
Desktop hard drives	**35**	46		**37**	46	

* Excludes sales of media and substrates which were immaterial for the three and six months ended December 26, 2008 compared to $120 million and $160 million for the three and six months, respectively, ended December 28, 2007.

For the quarter ended December 26, 2008, net revenue was $1.8 billion, a decrease of 17% over the quarter ended December 28, 2007. Total hard drive shipments increased to 35.5 million for the second quarter of 2009 as compared to 34.2 million for the second quarter of 2008. For the six months ended December 26, 2008, net revenue was $3.9 billion, a slight decrease from the six months ended December 28, 2007. Total hard drive shipments increased to 74.9 million for the six months ended December 26, 2008, as compared to 63.6 million for the six months ended December 28, 2007. The decreases in revenue resulted from a decline in average hard drive selling prices (“ASPs”) during the three and six months ended December 26, 2008. The decline in our ASPs reflect a very competitive pricing environment as a result of all competitors having anticipated more robust demand and consequently having too much supply available for the demand that materialized. The decline in our ASPs was partially offset by increases in unit shipments which resulted from our continuing diversification into non-desktop markets. For example, we shipped 13.8 million and 28.4 million 2.5-inch drives in the three and six months ended December 26, 2008, respectively. This compares to 8.7 million and 14.6 million units in the three and six months ended December 28, 2007, respectively. Revenue from all non-desktop PC markets comprised of 65% of hard drive revenue for the quarter ended December 26, 2008 as compared to 54% for the prior-year period.

Changes in revenue by geography and by channel generally reflect normal fluctuations in market demand and competitive dynamics, as well as demand strength in Asia continues to be driven by the concentration of global manufacturing in that region. For the three and six months ended December 26, 2008, we had one customer, Dell, that accounted for 10%, or more, of our revenue.

We have sales incentive and marketing programs that provide customers with price protection and other incentives or reimbursements that are recorded as a reduction to gross revenue. For the three and six months ended December 26, 2008, these programs represented 12% of gross revenues compared to 9% and 8%, respectively, in the comparative prior-year period. This increase was due to the continuing competitive pricing environment. Since the first quarter of fiscal year 2008, total sales incentive and marketing programs have ranged from 8% to 12% of gross revenues per quarter. Changes in future customer demand and market conditions may require us to increase our incentive programs as a percentage of gross revenue from the current range. Adjustments to revenues due to changes in accruals for these programs related to revenues reported in prior periods have averaged 0.3% of quarterly gross revenue since the first quarter of fiscal year 2008.

Gross Margin

(in millions, except percentages)	THREE MONTHS ENDED Dec. 26, 2008	THREE MONTHS ENDED Dec. 28, 2007	Percentage Change	SIX MONTHS ENDED Dec. 26, 2008	SIX MONTHS ENDED Dec. 28, 2007	Percentage Change
Net revenue	**$1,823**	$2,204	(17)%	**$3,933**	$3,970	(1)%
Gross margin	**290**	513	(43)	**714**	836	(15)
Gross margin %	**15.9%**	23.3%		**18.2%**	21.1%	

For the three and six months ended December 26, 2008, gross margin as a percentage of sales decreased 740 basis points and 290 basis points, respectively, from the prior-year periods primarily due to a very competitive pricing environment as a result of all competitors having anticipated more robust demand and consequently having too much supply available for the demand that materialized.

Operating Expenses

(in millions, except percentages)	THREE MONTHS ENDED Dec. 26, 2008	THREE MONTHS ENDED Dec. 28, 2007	Percentage Change	SIX MONTHS ENDED Dec. 26, 2008	SIX MONTHS ENDED Dec. 28, 2007	Percentage Change
R&D expense	**$ 119**	$ 122	(2)%	**$ 252**	$ 213	18%
SG&A expense	**42**	59	(29)	**99**	107	(7)
Acquired in-process research and development	**—**	—	—	**—**	49	—
Restructuring	**113**	—	—	**113**	—	—
Total operating expenses	**$ 274**	$ 181		**$ 464**	$ 369	

Research and development ("R&D") expense was $119 million for the three months ended December 26, 2008, a decrease of $3 million over the prior-year period. This decrease primarily consists of a $33 million decrease in variable incentive compensation which includes the reversal of our September quarter accrual of $13 million and the absence of similar accruals in the December quarter resulting from the decrease in our operating results for the December quarter, offset by a $30 million increase in product development to support new programs. For the six months ended December 26, 2008, R&D expense was $252 million, an increase of $39 million over the prior-year-period. This increase includes a $73 million increase in product development to support new programs and the acquired media operations, offset by a decrease of $34 million in variable incentive compensation.

Selling, general and administrative ("SG&A") expense was $42 million for the three months ended December 26, 2008, a decrease of $17 million over the prior-year period. This decrease primarily consists of a $16 million decrease in variable incentive compensation which includes the reversal of our September quarter accrual of $3 million and the absence of similar accruals in the December quarter resulting from the decrease in our operating results for the December quarter and a $6 million insurance recovery, offset by a $5 million increase for the expansion of our sales and marketing infrastructure to support new products and customers in new regions. For the six months ended December 26, 2008, SG&A expense was $99 million, a decrease of $8 million over the prior-year period. This decrease includes a $16 million decrease in variable incentive compensation and a $6 million insurance recovery, offset by a $14 million increase for the expansion of our sales and marketing presence into new regions along with associated infrastructure to support new products and customers.

During the three months ended December 26, 2008, we recorded a $113 million restructuring charge which consisted of $80 million of asset impairment charges, $32 million of employee termination costs and $1 million of contract termination costs.

During the six months ended December 28, 2007, we recorded a $49 million charge related to an in-process research and development project acquired from Komag involving technology for higher recording densities on advanced perpendicular recording media.

Other Income (Expense)

Interest income for the three and six months ended December 26, 2008 decreased $6 million and $11 million, respectively, as compared to the prior-year periods primarily due to a decrease in the rates of return on our investments. Interest and other expense for the three and six months ended December 26, 2008 decreased $13 million and $11 million, respectively, as compared to the prior-year periods. This was primarily due to a decrease in the interest rate on a lower amount of debt and other-than-temporary impairment charges on our auction-rate securities of $6 million and $9 million in the three and six months ended December 26, 2008, respectively, compared to $8 million in other-than-temporary charges in the prior-year periods.

Income Tax Provision

Our income tax for the three months ended December 26, 2008 was a net $7 million benefit as compared to an $11 million expense in the prior-year period. The net $7 million tax benefit consists of a tax provision of $6 million offset by a $6 million tax benefit related to the extension of the research and development tax credit, which was enacted into law in October 2008, and a $7 million favorable adjustment to previously recorded tax accruals to reflect a change in our outlook of future income before taxes. Our income tax provision for the six months ended December 26, 2008 was $12 million compared to $80 million in the prior-year period. The provision for the six months ended December 28, 2007 included the tax related to the up front royalty payment related to the intercompany license of certain intellectual property rights. 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.

Goodwill

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, goodwill is not amortized but instead is tested for impairment based on a two-step process. This process is performed on an annual basis or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired. During the second quarter of fiscal 2009, our market capitalization decreased to a value below our net shareholders’ equity. In addition, the unfavorable macroeconomic conditions adversely affected our business environment. Due to these events, we performed an interim impairment test of our goodwill as of December 26, 2008. We have one operating segment, the hard drive business, and therefore one reporting unit for purposes of testing for goodwill impairment. To determine the fair value of our single reporting unit, we used the market capitalization approach based on recent share prices, including a control premium based on recent transactions that have occurred within the storage industry. In the first step of the goodwill impairment test, we determined the fair value of our reporting unit exceeded its carrying amount; therefore goodwill was not impaired as of December 26, 2008 and the second step of the impairment test was not necessary.

Liquidity and Capital Resources

We ended the second quarter of fiscal 2009 with total cash and cash equivalents of $1.4 billion. The following table summarizes our statements of cash flows for the six months ended December 26, 2008 and December 28, 2007 (in millions):

	SIX MONTHS ENDED	
	Dec. 26, 2008	**Dec. 28, 2007**
Net cash flow provided by (used in):		
Operating activities	**$ 601**	$ 738
Investing activities	**(301)**	(1,040)
Financing activities	**(28)**	519
Net increase in cash and cash equivalents	**$ 272**	$ 217

Operating Activities

Net cash provided by operating activities during the six months ended December 26, 2008 was $601 million as compared to $738 million during the six months ended December 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 provided by working capital changes was $34 million for the six months ended December 26, 2008 as compared to $39 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 quarter ended December 26, 2008 and December 28, 2007 were as follows:

	THREE MONTHS ENDED	
	Dec. 26, 2008	Dec. 28, 2007
Days sales outstanding	46	45
Days in inventory	27	25
Days payables outstanding	(64)	(66)
Cash conversion cycle	9	4

For the three months ended December 26, 2008, our days sales outstanding ("DSOs") increased by 1 day, days in inventory ("DIOs") increased by 2 days, and days payable outstanding ("DPOs") decreased by 2 days as compared to the prior-year period. DSOs increased by 1 day as a result of changes in customer mix and linearity of shipments in the current quarter as compared to the prior-year period. DIOs increased by 2 days due to a decrease in units shipped towards the end of the quarter ended December 26, 2008 as compared to the prior-year period. DPOs decreased by 2 days from 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 six months ended December 26, 2008 was $301 million as compared to $1.0 billion for the six months ended December 28, 2007. Investment activities in the six months ended December 26, 2008 consisted primarily of capital expenditures of $302 million. Investment activities in the six months ended December 28, 2007 included $915 million used in the acquisition of Komag and capital expenditures of $332 million, offset by a $207 million net cash increase resulting from the sale and purchase of investments.

For fiscal 2009, capital additions are currently expected to be approximately $500 million. Depreciation and amortization expense for fiscal 2009 is expected to approximate $480 million.

Our cash equivalents are invested primarily in readily accessible, AAA rated institutional money market funds which are invested in U.S. Treasury securities. We also have auction-rate securities that are classified as long-term investments as they are expected to be held until secondary markets become available. 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. The carrying value of our investments in auction-rate securities was reduced from $28 million as of June 27, 2008 to $19 million as of December 26, 2008, as a result of the recognition of $9 million in other-than-temporary losses that were recorded through earnings.

Financing Activities

Net cash used in financing activities for the six months ended December 26, 2008 was $28 million as compared to net cash provided by financing activities of $519 million in the prior year. Net cash used in financing activities for the six months ended December 26, 2008 resulted primarily from $36 million used to repurchase our common stock and $5 million in debt repayments on our capital leases offset by a net $13 million related to employee stock plans. Net cash provided by financing activities for the six months ended December 28, 2007 resulted from $760 million in debt proceeds used to fund the acquisition of Komag and a net $32 million related to employee stock plans. These amounts were offset by our repayment of the $250 million in convertible debt assumed in the acquisition of Komag, $16 million used to repurchase our common stock and $7 million used for debt repayment on capital leases.

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 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 2.75% as of December 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 December 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. We also enter into purchase orders with suppliers for capital equipment that are recorded as a liability upon receipt of the equipment, Our ability to change or cancel a capital equipment purchase order without penalty depends on the nature of the equipment being ordered. 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 of components or capital equipment.

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 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 under a program through March 31, 2013. Since the inception of this stock repurchase program, through December 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 December 26, 2008, our total cash liability representing unrecognized tax benefits was $33 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 provide resellers with limited price protection for inventories held by resellers at the time of published list price reductions and other sales 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 several factors including anticipated price decreases during the reseller holding period, reseller's sell-through and inventory levels, estimated amounts to be reimbursed to qualifying customers, historical pricing information and customer claim processing. If customer demand for hard drives or market conditions differ from our expectations, our operating results could be affected. 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 sales incentive and marketing 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 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. Also, during a period of declining revenue, the percentage of warranty utilization to revenue may increase. 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 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 us is the first quarter of fiscal 2010. The partial adoption of SFAS 157 for financial assets and financial liabilities in our first quarter of fiscal 2009 did not have a material impact on our consolidated financial statements. We are currently evaluating the impact the adoption of SFAS 157 will have on the non-financial assets and non-financial liabilities in our 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. We chose not to elect the fair value option for eligible items, and accordingly, the adoption of SFAS 159 in the first quarter of fiscal 2009 had no impact on our 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) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for the Company is the first quarter of fiscal 2010. SFAS 141(R) will impact the Company's consolidated financial statements for business combinations with an acquisition date on or after adoption in the first quarter of fiscal 2010.

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. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, which for us is the third quarter of fiscal 2009.

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 us is the first quarter of fiscal 2010. We are currently evaluating the impact the adoption of FSP FAS 142-3 will have on our 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, 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 December 26, 2008, we had outstanding the following purchased foreign exchange contracts (in millions, except weighted average contract rate):

	Contract Amount	Weighted Average Contract Rate*	Unrealized Loss
Foreign exchange contracts:			
Thai Baht cash flow hedges	$524	34.39	$ 8
Thai Baht fair value hedges	$ 84	34.95	—
Malaysian Ringgit cash flow hedges	$123	3.32	$ 3
Euro fair value hedges	$ 13	0.71	—
British Pound Sterling fair value hedges	$ 2	0.68	—

* Expressed in units of foreign currency per dollar.

During the six-month periods ended December 26, 2008 and December 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 $19 million as of December 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 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 December 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 that we previously updated in our Quarterly Report on Form 10-Q filed October 31, 2008, and the sixth through eighth risk factors added below, there have been no material changes in our assessment of the risk factors. All of our risk factors are included below.

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

If the current worldwide economic downturn continues, many of our direct and indirect customers may continue to 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 continue to prevent our customers’ access to credit, product orders in these channels may continue to decrease which could result in lower revenue. Likewise, if our suppliers continue to 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 continue to result in 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 depress product prices and 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. For a further discussion of these risks, please see the risk factor below entitled "*Our failure to accurately forecast market and customer demand for our products could adversely affect our business and financial results or operating efficiencies.*"

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 extend credit and payment terms to some of our customers. In addition to ongoing credit evaluations of our customers' financial condition, we traditionally seek to mitigate our credit risk by purchasing credit insurance on certain of our accounts receivable balances; however, as a result of the current negative economic worldwide conditions, we may find it increasingly difficult to be able to insure these accounts receivable. 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.

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 helped advance acceptance of "netbooks" in the PC market, and have successfully served digital entertainment markets for products such as digital cameras, MP3 players, USB flash drives and mobile phones that require lower storage capacity devices that cannot be economically manufactured using hard drive technology. 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.

Our restructuring plan may not properly realign our cost structure and may result in increased impairment charges and have a negative impact on our operating results.

As we previously announced, we committed to a business restructuring plan intended to realign our cost structure with a softer demand environment. If we experience excessive unanticipated inefficiencies or incremental costs in these restructuring activities, such as unanticipated inefficiencies caused by reducing headcount or costs associated with closing a facility, we may be unable to properly realign our cost structure with demand and we may incur impairment charges and other expenses in excess of what we anticipate, either of which could adversely impact our results of operations or financial condition.

The outcome of our ongoing domestic and foreign tax audits may negatively impact our operating results.

As we have previously disclosed, we are under examination of certain of our fiscal years by the United States Internal Revenue Service (the “IRS”). Separately, our French subsidiary is under examination by the French tax authorities. Although we believe our tax positions for the years under review are reasonable, the outcomes and timing of these audits are subject to significant uncertainty and could result in us having to pay amounts to the IRS or French tax authorities in order to resolve examination of our tax positions, which could result in an increase or decrease of our current estimate of unrecognized tax benefits, which may negatively impact our financial position, results of operations, net income or cash flows.

If our long-lived assets or goodwill become impaired, it may adversely affect our operating results.

If the current worldwide economic downturn continues, it could result in circumstances, such as a sustained decline in our stock price and market capitalization or a decrease in our forecasted cash flows such that they are insufficient, indicating that the carrying value of our long-lived assets or goodwill may be impaired. If we are required to record a significant charge to earnings in our consolidated financial statements because an impairment of our long-lived assets or goodwill is determined, our results of operations will be adversely affected.

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 various CE devices. Accurate forecasts for future requirements of these new markets remain challenging.

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 emerging markets such as CE, 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 many 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 or put us at a disadvantage to competing technologies.

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 hard drives or solid state storage at lower prices, thereby decreasing our revenue or putting us at a disadvantage to competing storage technologies. 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 or 2.5-inch hard drives for the desktop, mobile, enterprise, 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 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 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 is an important part of our business, and if consumer spending continues to decrease, or if we fail to maintain and grow our market share or gain market acceptance of our branded products, our operating results could suffer.

Selling branded products is an important part of our business and as our branded products revenue increases as a portion of our overall revenue, our success in the retail market becomes increasingly important to our operating results. If consumer spending continues to decrease as a result of the current worldwide economic downturn, our operating results could suffer because of the increased importance of our branded products business.

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 customers no longer maintain a preference for WD®-brand products or if we 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.

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

During the quarter ended December 26, 2008, a large percentage of our revenue came from sales to our top 10 customers, which accounted for 49% 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 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 may over extended periods of time 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 may sell hard drives at lower prices and operate their hard drive business unit at a loss over an extended period of time 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 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 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. For example, 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.

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 or causing us to have inadequate or excess component inventory.

To reduce the risk of component shortages, we attempt to provide significant lead times when buying components which may subject us to cancellation charges if we cancel orders as a result of technology transitions or changes in our component needs. In addition, we may from time to time enter into contractual commitments with 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 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. Furthermore, as a result of the current negative worldwide economic conditions, our ability to forecast our requirements for these components has become increasingly difficult, therefore increasing the risk that our contractual commitments may not meet our actual supply requirements, causing us to have inadequate or excess component inventory, which could adversely affect our operating results and increase our operating costs.

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;
- 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"), energy assisted magnetic recording, patterned media 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 patterned media 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 patterned media prior to a need for the equipment in the semiconductor industry. We believe that if patterned media 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.

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.

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 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 industry environmental initiatives, the 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 compliance and operating 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 initiatives or 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.

Additionally, we negotiate and procure some of our component requirements in U.S. dollars from Japanese and other non-U.S. based vendors. If the U.S. dollar continues to weaken against other foreign currencies, some of our component suppliers may increase the price which they charge for their components in order to maintain an equivalent profit margin. If this occurs, it would have a negative impact on our operating results.

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

Some of our OEM customers have adopted a subcontractor model that requires us to contract directly with companies, 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;
- contraction in our operating results or 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.

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 $19 million as of December 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 December 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 $6 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.

Current economic conditions have caused us difficulty in adequately protecting our increased cash and short-term investments from financial institution failures.

The negative global economic conditions and volatile investment markets have caused us to hold more cash, cash equivalents and short-term investments than we would hold under normal circumstances. Since there has been an overall increase in demand for low-risk, U.S. government backed securities with a limited supply in the financial marketplace, we face increased difficulty in adequately protecting our increased cash and short-term investments from possible sudden and unforeseeable failures by banks and other financial institutions. A failure of any of these financial institutions in which deposits exceed FDIC limits could have an adverse impact on our financial position.

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 or if we identify a material weakness or significant deficiency in our financial reporting, 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 December 26, 2008:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Program (1)	Maximum Value of Shares that May Yet be Purchased Under the Program(1)
Sept. 27, 2008 — Oct. 24, 2008	1,876(2)	$ 21.32	—	$ 467,004,422
Oct. 25, 2008 — Nov. 21, 2008	58,092(2)	$ 13.24	—	$ 467,004,422
Nov. 22, 2008 — Dec. 26, 2008	2,860(2)	$ 11.22	—	$ 467,004,422
Total	62,828	$ 13.39	—	$ 467,004,422

(1) Our Board of Directors previously authorized us to repurchase $750 million of our common stock in open market transactions under a program through March 31, 2013.

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

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

1. The annual meeting of stockholders was held on November 6, 2008. The stockholders elected the following ten directors to hold office until the next annual meeting and until their successors are elected and qualified:

	FOR	AGAINST	ABSTAIN
Peter D. Behrendt	192,135,883	1,917,671	241,532
Kathleen A. Cote	193,433,617	626,597	207,873
John F. Coyne	192,156,737	1,934,638	176,712
Henry T. DeNero	193,450,609	586,228	231,249
William L. Kimsey	193,464,795	571,568	231,724
Michael D. Lambert	193,375,025	710,445	182,617
Matthew E. Massengill	191,902,252	2,184,745	181,090
Roger H. Moore	191,293,314	2,683,831	290,941
Thomas E. Pardun	191,744,029	2,316,839	207,218
Arif Shakeel	191,808,202	2,305,994	153,891

2. In addition, the stockholders approved the following matters:

	FOR	AGAINST	ABSTAIN	BROKER NON VOTE
To approve an amendment to the Western Digital Corporation 2005 Employee Stock Purchase Plan	164,045,160	2,230,321	144,495	27,848,111
To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending July 3, 2009	191,542,355	2,535,350	190,382	—

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Item 6. EXHIBITS

Exhibit No.	Description
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	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan, effective as of November 17, 2005, and amended and restated as of November 6, 2008†*
10.1.10	Western Digital Corporation Amended and Restated 2004 Performance Incentive Plan Non-Employee Director Restricted Stock Unit Grant Program, as amended November 6, 2008†*
10.5	Western Digital Corporation 2005 Employee Stock Purchase Plan, amended as of November 6, 2008 (Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-155661), as filed with the Securities and Exchange Commission on November 25, 2008)
10.6	Amended and Restated Western Digital Corporation Non-Employee Directors Stock-For-Fees Plan, amended as of November 6, 2008†*
10.7	Western Digital Corporation Summary of Compensation Arrangements for Named Executive Officers and Directors†*
10.14	Western Digital Corporation Amended and Restated Change of Control Severance Plan, amended as of November 6, 2008†*
10.15	Western Digital Corporation Executive Severance Plan, amended and restated as of November 6, 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†
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.

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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: January 29, 2009

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WESTERN DIGITAL CORPORATION
AMENDED AND RESTATED
2004 PERFORMANCE INCENTIVE PLAN

(Amended and Restated as of November 6, 2008)

1. PURPOSE OF PLAN

The purpose of this Western Digital Corporation 2004 Performance Incentive Plan (this "**Plan**") of Western Digital Corporation, a Delaware corporation (the "**Corporation**"), is to promote the success of the Corporation and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons.

2. ELIGIBILITY

The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An "**Eligible Person**" is any person who is either: (a) an officer (whether or not a director) or employee of the Corporation or one of its Subsidiaries; (b) a director of the Corporation or one of its Subsidiaries; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Corporation or one of its Subsidiaries in a capital-raising transaction or as a market maker or promoter of securities of the Corporation or one of its Subsidiaries) to the Corporation or one of its Subsidiaries and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Corporation's eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the "**Securities Act**"), the offering and sale of shares issuable under this Plan by the Corporation or the Corporation's compliance with any other applicable laws. An Eligible Person who has been granted an award (a "participant") may, if otherwise eligible, be granted additional awards if the Administrator shall so determine. As used herein, "**Subsidiary**" means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation; and "**Board**" means the Board of Directors of the Corporation.

3. PLAN ADMINISTRATION

3.1 ***The Administrator***. This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The "**Administrator**" means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by Section 157(c) of the Delaware General Corporation Law and any other applicable law, to one or more officers of the Corporation, its powers under this Plan (a) to designate the officers and employees of the Corporation and its Subsidiaries who will receive grants of awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of, such awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Corporation or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "**Code**"), this Plan shall be administered by a committee consisting solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code); provided, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. Award grants to, and transactions in or involving awards held by persons who the Board or a committee thereof determines are subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), must be duly and timely authorized by a Board committee consisting solely of two or more non-employee directors (as this requirement is applied under Rule 16b-3 promulgated under the Exchange Act). To the extent required by any applicable listing agency, this Plan shall be administered by a committee composed entirely of independent directors (within the meaning of the applicable listing agency).

3.2 ***Powers of the Administrator***. Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within the authority delegated to that committee or person(s)), including, without limitation, the authority to:

(a) determine eligibility and, from among those persons determined to be eligible, the particular Eligible Persons who will receive an award under this Plan;

(b) grant awards to Eligible Persons, determine the price at which securities will be offered or awarded and the number of securities to be offered or awarded to any of such persons, determine the other specific terms and conditions of such awards consistent with the express limits of this Plan, establish the installments (if any) in which such awards shall become exercisable or shall vest (which may include, without limitation, performance and/or time-based schedules), or determine that no delayed exercisability or vesting is required (subject to the minimum vesting rules of Section 5.1.5), establish any applicable performance targets, and establish the events of termination or reversion of such awards;

(c) approve the forms of award agreements (which need not be identical either as to type of award or among participants);

(d) construe and interpret this Plan and any agreements defining the rights and obligations of the Corporation, its Subsidiaries, and participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the awards granted under this Plan;

(e) cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;

(f) accelerate or extend the vesting or exercisability or extend the term of any or all such outstanding awards (in the case of options or stock appreciation rights, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature) subject to any required consent under Section 8.6.5 and subject to the minimum vesting rules of Section 5.1.5;

(g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6, and provided that in no case (except due to an adjustment contemplated by Section 7 or any repricing that may be approved by stockholders) shall such an adjustment constitute a repricing (by amendment, cancellation and regrant, exchange or other means) of the per share exercise or base price of any option or stock appreciation right;

(h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action granting an award);

(i) determine whether, and the extent to which, adjustments are required pursuant to Section 7 hereof and authorize the termination, conversion, substitution or succession of awards upon the occurrence of an event of the type described in Section 7;

(j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration; and

(k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined.

3.3 ***Binding Determinations***. Any action taken by, or inaction of, the Corporation, any Subsidiary, or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

3.4 ***Reliance on Experts***. In making any determination or in taking or not taking any action under this Plan, the Board or a committee, as the case may be, may obtain and may rely upon the advice of experts, including employees and professional advisors to the Corporation. No director, officer or agent of the Corporation or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.

3.5 ***Delegation***. The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation or any of its Subsidiaries or to third parties.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS

4.1 ***Shares Available***. Subject to the provisions of Section 7.1, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. For purposes of this Plan, "**Common Stock**" shall mean the common stock of the Corporation and such other securities or property as may become the subject of awards under this Plan, or may become subject to such awards, pursuant to an adjustment made under Section 7.1.

4.2 ***Share Limits***. The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan (the "**Share Limit**") is equal to the sum of the following:

(a) 17,500,000 shares of Common Stock, plus

(b) the number of shares of Common Stock available for additional award grant purposes under the Corporation's Employee Stock Option Plan (the "**Employee Option Plan**") immediately prior to the expiration of that plan on November 10, 2004; plus

(c) the number of shares of Common Stock available for additional award grant purposes under the Corporation's Stock Option Plan for Non-Employee Directors (the "**Director Option Plan**"), and the Corporation's

Broad-Based Stock Incentive Plan (the "**Broad-Based Plan**" and, together with the Employee Option Plan and the Director Option Plan, the "**Option Plans**") as of the date of stockholder approval of this Plan (the "**Stockholder Approval Date**") and determined immediately prior to the termination of the authority to grant new awards under the Director Option Plan and the Broad-Based Plan as of the Stockholder Approval Date, plus

(d) the number of any shares subject to stock options granted under the Option Plans and outstanding on the Stockholder Approval Date which expire, or for any reason are cancelled or terminated, after the Stockholder Approval Date without being exercised; plus

(e) the number of any shares of restricted stock granted under the Broad-Based Plan that are outstanding and unvested on the Stockholder Approval Date that are forfeited, terminated, cancelled or otherwise reacquired by the Corporation without having become vested;

provided that in no event shall the Share Limit exceed 48,199,313 shares (which is the sum of the 17,500,000 shares set forth above, plus the number of shares available under the Option Plans for additional award grant purposes as of the Effective Date (as such term is defined in Section 8.6.1), plus the aggregate number of shares subject to options previously granted and outstanding under the Option Plans as of the Effective Date, plus the maximum number of shares subject to restricted stock awards previously granted and outstanding under the Broad-Based Plan that had not vested as of the Effective Date).

Shares issued in respect of any "Full-Value Award" granted under this Plan shall be counted against the foregoing Share Limit as 1.35 shares for every one share actually issued in connection with such award. (For example, if a stock bonus of 100 shares of Common Stock is granted under this Plan, 135 shares shall be charged against the Share Limit in connection with that award.) For this purpose, a "Full-Value Award" means any award under this Plan that is <u>not</u> either: (1) a delivery of shares in respect of compensation earned but deferred, (2) except as expressly provided in Section 5.1.1 (which generally provides that "discounted" stock option grants are Full-Value Awards), a stock option grant, and (3) except as expressly provided in Section 5.1.3 (which generally provides that "discounted" stock appreciation right grants are Full-Value Awards), a stock appreciation right grant.

The following limits also apply with respect to awards granted under this Plan:

(1) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 35,199,313 shares.

(2) The maximum number of shares of Common Stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under this Plan is 1,000,000 shares.

(3) Additional limits with respect to Performance-Based Awards are set forth in Section 5.2.3.

(4) In no event will greater than five percent (5%) of the total shares of Common Stock available for award grant purposes under this Plan be used for purposes of granting certain "Special Full-Value Awards" referred to in Sections 5.1.1, 5.1.3 and 5.1.5.

Each of the foregoing numerical limits is subject to adjustment as contemplated by Section 4.3, Section 7.1, and Section 8.10.

4.3 ***Awards Settled in Cash, Reissue of Awards and Shares***. The share limits of this Plan are subject to adjustment pursuant to the following, subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder. Refer to Section 8.10 for application of this Plan's share limits with respect to assumed awards.

(a) Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent awards under this Plan.

(b) To the extent that an award is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan.

(c) In the event that shares of Common Stock are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of this Plan. To the extent that shares of Common Stock are delivered pursuant to the exercise of a stock appreciation right or stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits under Section 4.2, as opposed to only counting the shares actually issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits under Section 4.2 with respect to such exercise.)

4.4 ***Reservation of Shares; No Fractional Shares; Minimum Issue***. The Corporation shall at all times reserve a number of shares of Common Stock sufficient to cover the Corporation's obligations and contingent obligations to deliver shares with respect to awards then outstanding under this Plan (exclusive of any dividend equivalent obligations to the extent the Corporation has the right to settle such rights in cash). No fractional shares shall be delivered under this Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan.

5. AWARDS

5.1 ***Type and Form of Awards***. The Administrator shall determine the type or types of award(s) to be made to each selected Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Corporation or one of its Subsidiaries. The types of awards that may be granted under this Plan are:

5.1.1 ***Stock Options***. A stock option is the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Administrator. An option may be intended as an incentive stock option within the meaning of Section 422 of the Code (an "**ISO**") or a nonqualified stock option (an option not intended to be an ISO). The award agreement for an option will indicate if the option is intended as an ISO; otherwise it will be deemed to be a nonqualified stock option. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The per share exercise price for each option shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the option, except as follows: (a) in the case of a stock option granted retroactively in tandem with or as a substitution for another award, the per share exercise price may be no lower than the fair market value of a share of Common Stock on the date such other award was granted (to the extent consistent with Sections 422 and 424 of the Code in the case of options intended as incentive stock options); and (b) in any other circumstances, a nonqualified stock option may be granted with a per share exercise price that is less than the fair market value of a share of Common Stock on the date of grant, provided that any shares delivered in respect of such option shall be charged against the Share Limit as a Full-Value Award and against the other applicable share limits of Section 4.2 as a Special Full-Value Award. When an option is exercised, the exercise price for the shares to be purchased shall be paid in full in cash or such other method permitted by the Administrator consistent with Section 5.5.

5.1.2 ***Additional Rules Applicable to ISOs***. To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds $100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Corporation or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the $100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the $100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Corporation or one of its subsidiaries (for this purpose, the term "subsidiary" is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Corporation and ending with the subsidiary in question). There shall be imposed in any award agreement relating to ISOs such other terms and conditions as from time to time are required in order that the option be an "incentive stock option" as that term is defined in Section 422 of the Code. No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted.

5.1.3 ***Stock Appreciation Rights***. A stock appreciation right or "**SAR**" is a right to receive a payment, in cash and/or Common Stock, equal to the excess of the fair market value of a specified number of shares of Common Stock on the date the SAR is exercised over the fair market value of a share of Common Stock on the date the SAR was granted (the "base price") as set forth in the applicable award agreement, except as follows: (a) in the case of a SAR granted retroactively in tandem with or as a substitution for another award, the base price may be no lower than the fair market value of a share of Common Stock on the date such other award was granted; and (b) in any other circumstances, a SAR may be granted with a base price that is less than the fair market value of a share of Common Stock on the date of grant, provided that any shares actually delivered in respect of such award shall be charged against the Share Limit as a Full-Value Award and against the other applicable share limits of Section 4.2 as a Special Full-Value Award. The maximum term of an SAR shall be ten (10) years.

5.1.4 ***Other Awards***. The other types of awards that may be granted under this Plan include: (a) stock bonuses, restricted stock, performance stock, stock units, phantom stock, dividend equivalents, or similar rights to purchase or acquire shares, whether at a fixed or variable price or ratio related to the Common Stock, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof; (b) any similar securities with a value derived from the value of or related to the Common Stock and/or returns thereon; or (c) cash awards granted consistent with Section 5.2 below.

5.1.5 ***Minimum Vesting Requirements***. Except for any accelerated vesting required or permitted pursuant to Section 7 and except as otherwise provided in the following provisions of this Section 5.1.5, and subject to such additional vesting requirements or conditions as the Administrator may establish with respect to the award, each award granted under this Plan that is a Full-Value Award and payable in shares of Common Stock shall be subject to the following minimum vesting requirements: (a) if the award includes a performance-based vesting condition, the award shall not vest earlier than the first anniversary of the date of grant of the award and vesting shall occur only if the award holder is employed by, a director of, or otherwise providing services to the Corporation or one of its Subsidiaries on such vesting date; and (b) if the award does not include a performance-based vesting condition, the award shall not vest more rapidly than in monthly installments over the three-year period immediately following the date of grant of the award and vesting of any vesting installment of the award shall occur only if the award holder is employed by, a director of, or otherwise providing services to the Corporation or one of its Subsidiaries on the date such installment is scheduled to vest; provided that the Administrator may accelerate or provide in the applicable award agreement for the accelerated vesting of any Full-Value Award in connection with a change in control of the award holder's employer (or a parent thereof), the termination of the award holder's employment (including a termination of employment due to the award holder's death, disability or retirement, but not including a termination of employment by the award holder's employer for cause), or as consideration or partial consideration for a release by the award holder of pending or threatened claims against the Company, the award holder's employer, or any of their respective officers, directors or other affiliates (regardless of whether the release is given in connection with a termination of employment by the award holder's employer for cause or other circumstances). The Administrator may, however, accelerate or provide in the applicable award agreement for the accelerated vesting of any Full-Value Award in circumstances not contemplated by the preceding sentence, and/or provide for a vesting schedule that is shorter than the minimum schedule contemplated by the preceding sentence, in such circumstances as the Administrator may deem appropriate; provided, however, that the portion of any such Full-Value Award that vests earlier than the minimum vesting dates that would be applicable pursuant to the minimum vesting requirements of the preceding sentence (or, as to any accelerated vesting, provides for accelerated vesting other than in the circumstances contemplated by the preceding sentence) shall count against the applicable share limits of Section 4.2 as a Special Full-Value Award (as opposed to counting against such limits only as a Full-Value Award).

5.2 ***Section 162(m) Performance-Based Awards*****.** Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.4 above may be, and options and SARs granted with an exercise or base price not less than the fair market value of a share of Common Stock at the date of grant ("**Qualifying Options**" and "**Qualifying SARS**," respectively) typically will be, granted as awards intended to satisfy the requirements for "performance-based compensation" within the meaning of Section 162(m) of the Code ("**Performance-Based Awards**"). The grant, vesting, exercisability or payment of Performance-Based Awards may depend (or, in the case of Qualifying Options or Qualifying SARs, may also depend) on the degree of achievement of one or more performance goals relative to a pre-established targeted level or level using one or more of the Business Criteria set forth below (on an absolute or relative basis) for the Corporation on a consolidated basis or for one or more of the Corporation's subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualifying Option or Qualifying SAR shall be subject only to the requirements of Section 5.2.1 and 5.2.3 in order for such award to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Award. Any other Performance-Based Award shall be subject to all of the following provisions of this Section 5.2.

5.2.1 ***Class; Administrator*****.** The eligible class of persons for Performance-Based Awards under this Section 5.2 shall be officers and employees of the Corporation or one of its Subsidiaries. The Administrator approving Performance-Based Awards or making any certification required pursuant to Section 5.2.4 must be constituted as provided in Section 3.1 for awards that are intended as performance-based compensation under Section 162(m) of the Code.

5.2.2 ***Performance Goals*****.** The specific performance goals for Performance-Based Awards (other than Qualifying Options and Qualifying SARs) shall be, on an absolute or relative basis, established based on one or more of the following business criteria (“**Business Criteria**”) as selected by the Administrator in its sole discretion: 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. These terms are used as applied under generally accepted accounting principles or in the financial reporting of the Corporation or of its Subsidiaries. To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance goal or goals (“targets”) must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code. Performance targets shall be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets. The applicable performance measurement period may not be less than three months nor more than 10 years.

5.2.3 ***Form of Payment; Maximum Performance-Based Award*****.** Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Grants of Qualifying Options and Qualifying SARs to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.2(2). The maximum number of shares of Common Stock which may be delivered pursuant to Performance-Based Awards (other than Qualifying Options and Qualifying SARs, and other than cash awards covered by the following sentence) that are granted to any one participant in any one calendar year shall not exceed 800,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 7.1. In addition, the aggregate amount of compensation to be paid to any one participant in respect of all Performance-Based Awards payable only in cash and not related to shares of Common Stock and granted to that participant in any one calendar year shall not exceed $5,000,000. Awards that are cancelled during the year shall be counted against these limits to the extent permitted by Section 162(m) of the Code.

5.2.4 ***Certification of Payment.*** Before any Performance-Based Award under this Section 5.2 (other than Qualifying Options and Qualifying SARs) is paid and to the extent required to qualify the award as performance-based compensation within the meaning of Section 162(m) of the Code, the Administrator must certify in writing that the performance target(s) and any other material terms of the Performance-Based Award were in fact timely satisfied.

5.2.5 ***Reservation of Discretion.*** The Administrator will have the discretion to determine the restrictions or other limitations of the individual awards granted under this Section 5.2 including the authority to reduce awards, payouts or vesting or to pay no awards, in its sole discretion, if the Administrator preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

5.2.6 ***Expiration of Grant Authority.*** As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Administrator’s authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than Qualifying Options and Qualifying SARs) shall terminate upon the first meeting of the Corporation’s stockholders that occurs in the fifth year following the year in which the Corporation’s stockholders first approve this Plan.

5.3 ***Award Agreements***. Each award shall be evidenced by a written award agreement in the form approved by the Administrator and executed on behalf of the Corporation and, if required by the Administrator, executed by the recipient of the award. The Administrator may authorize any officer of the Corporation (other than the particular award recipient) to execute any or all award agreements on behalf of the Corporation. The award agreement shall set forth the material terms and conditions of the award as established by the Administrator consistent with the express limitations of this Plan.

5.4 ***Deferrals and Settlements***. Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Administrator shall determine, and with such restrictions as it may impose. The Administrator may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

5.5 ***Consideration for Common Stock or Awards***. The purchase price for any award granted under this Plan or the Common Stock to be delivered pursuant to an award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:

- a reduction in compensation otherwise payable to the recipient of such award for services rendered by the recipient;
- cash, check payable to the order of the Corporation, or electronic funds transfer;
- notice and third party payment in such manner as may be authorized by the Administrator;
- the delivery of previously owned shares of Common Stock;
- by a reduction in the number of shares otherwise deliverable pursuant to the award; or
- subject to such procedures as the Administrator may adopt, pursuant to a "cashless exercise" with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

In no event shall any shares newly-issued by the Corporation be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable state law. In the event that the Administrator allows a participant to exercise an award by delivering shares of Common Stock previously owned by such participant and unless otherwise expressly provided by the Administrator, any shares delivered which were initially acquired by the participant from the Corporation (upon exercise of a stock option or otherwise) must have been owned by the participant at least six months as of the date of delivery. Shares of Common Stock used to satisfy the exercise price of an option shall be valued at their fair market value on the date of exercise. The Corporation will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefor and any related withholding obligations under Section 8.5 and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided in the applicable award agreement, the Administrator may at any time eliminate or limit a participant's ability to pay the purchase or exercise price of any award or shares by any method other than cash payment to the Corporation.

5.6 ***Definition of Fair Market Value***. For purposes of this Plan, "fair market value" shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange (the "**Exchange**") for the date in question or, if no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported on said composite tape for the next preceding day on which sales of Common Stock were made on the Exchange. The Administrator may, however, provide with respect to one or more awards that the fair market value shall equal the last closing price of a share of Common Stock as reported on the composite tape for securities listed on the Exchange available at the relevant time or the average of the high and low trading prices of a share of Common Stock as reported on the composite tape for securities listed on the Exchange for the date in question or the most recent trading day. If the Common Stock is no longer listed or is no longer actively traded on the Exchange as of the applicable date, the fair market value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of the award in the circumstances. The Administrator also may adopt a different methodology for determining fair market value with respect to one or more awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular award(s) (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

5.7 ***Transfer Restrictions***.

5.7.1 ***Limitations on Exercise and Transfer***. Unless otherwise expressly provided in (or pursuant to) this Section 5.7, by applicable law and by the award agreement, as the same may be amended, (a) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (b) awards shall be exercised only by the participant; and (c) amounts payable or shares issuable pursuant to any award shall be delivered only to (or for the account of) the participant.

5.7.2 ***Exceptions***. The Administrator may permit awards to be transferred to other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing; provided, however, that any such transfer shall only be permitted if it is made by the participant for estate or tax planning or charitable purposes for no (or nominal) consideration, as determined by the Administrator. Any permitted transfer shall be subject to compliance with applicable federal and state securities laws.

5.7.3 ***Further Exceptions to Limits on Transfer***. The exercise and transfer restrictions in Section 5.7.1 shall not apply to:

(a) transfers to the Corporation,

(b) the designation of a beneficiary to receive benefits in the event of the participant's death or, if the participant has died, transfers to or exercise by the participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,

(c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if approved or ratified by the Administrator,

(d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or

(e) the authorization by the Administrator of "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and the express authorization of the Administrator.

5.8 ***International Awards***. One or more awards may be granted to Eligible Persons who provide services to the Corporation or one of its Subsidiaries outside of the United States. Any awards granted to such persons may be granted pursuant to the terms and conditions of any applicable sub-plans, if any, appended to this Plan and approved by the Administrator.

6. EFFECT OF TERMINATION OF SERVICE ON AWARDS

6.1 ***General***. The Administrator shall establish the effect of a termination of employment or service on the rights and benefits under each award under this Plan and in so doing may make distinctions based upon, inter alia, the cause of termination and type of award. If the participant is not an employee of the Corporation or one of its Subsidiaries and provides other services to the Corporation or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the award otherwise provides) of whether the participant continues to render services to the Corporation or one of its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6.2 ***Events Not Deemed Terminations of Service***. Unless the express policy of the Corporation or one of its Subsidiaries, or the Administrator, otherwise provides, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Corporation or one of its Subsidiaries, or the Administrator; provided that unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than 90 days. In the case of any employee of the Corporation or one of its Subsidiaries on an approved leave of absence, continued vesting of the award while on leave from the employ of the Corporation or one of its Subsidiaries may be suspended until the employee returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an award be exercised after the expiration of the term set forth in the award agreement.

6.3 ***Effect of Change of Subsidiary Status***. For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Corporation a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another entity within the Corporation or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status.

7. ADJUSTMENTS; ACCELERATION

7.1 ***Adjustments***. Subject to Section 7.2, upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Administrator shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Corporation as an entirety, the Administrator shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable U.S. legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code, Section 409A of the Code and Section 162(m) of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

Without limiting the generality of Section 3.3, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances pursuant to this Section 7.1, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

7.2 ***Corporate Transactions — Assumption and Termination of Awards***. Upon the occurrence of any of the following: any merger, combination, consolidation, or other reorganization; any exchange of Common Stock or other securities of the Corporation; a sale of all or substantially all the business, stock or assets of the Corporation; a dissolution of the Corporation; or any other event in which the Corporation does not survive (or does not survive as a public company in respect of its Common Stock); then the Administrator may make provision for a cash payment in settlement of, or for the assumption, substitution or exchange of any or all outstanding share-based awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based awards, based upon, to the extent relevant under the circumstances, the distribution or consideration payable to holders of the Common Stock upon or in respect of such event. Upon the occurrence of any event described in the preceding sentence, then, unless the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the award or the award would otherwise continue in accordance with its terms in the circumstances: (1) subject to Section 7.7 and unless otherwise provided in the applicable award agreement, each then-outstanding option and SAR shall become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award; and (2) each award shall terminate upon the related event; provided that the holder of an option or SAR shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding vested options and SARs (after giving effect to any accelerated vesting required in the circumstances) in accordance with their terms before the termination of such awards (except that in no case shall more than ten days' notice of the impending termination be required and any acceleration of vesting and any exercise of any portion of an award that is so accelerated may be made contingent upon the actual occurrence of the event).

The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award.

Without limiting the generality of Section 3.3, any good faith determination by the Administrator pursuant to its authority under this Section 7.2 shall be conclusive and binding on all persons.

7.3 ***Possible Acceleration of Awards***. Without limiting Section 7.2, in the event of a Change in Control Event (as defined below), the Administrator may, in its discretion, provide that any outstanding option or SAR shall become fully vested, that any share of restricted stock then outstanding shall fully vest free of restrictions, and that any other award granted under this Plan that is then outstanding shall be payable to the holder of such award. The Administrator may take such action with respect to all awards then outstanding or only with respect to certain specific awards identified by the Administrator in the circumstances and may condition any such acceleration upon the occurrence of another event (such as, without limitation, a termination of the award holder's employment). For purposes of this Plan, "**Change in Control Event**" means any of the following:

(a) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, a "**Person**"), alone or together with its affiliates and associates, including any group of persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act (other than the Corporation or any subsidiary thereof or any employee benefit plan (or related trust) of the Corporation or any subsidiary thereof, or any underwriter in connection with a firm commitment public offering of the Corporation's capital stock), becomes the "beneficial owner" (as such term is defined in Rule 13d-3 of the Exchange Act, except that a person shall also be deemed the beneficial owner of all securities which such person may have a right to acquire, whether or not such right is presently exercisable, referred to herein as "**Beneficially Own**" or "**Beneficial Owner**" as the context may require) of thirty-three and one third percent or more of (i) the then outstanding shares of the Corporation's common stock ("**Outstanding Company Common Stock**") or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Corporation's then outstanding voting securities ("**Outstanding Company Voting Securities**") (in each case, other than an acquisition in the context of a merger, consolidation, reorganization, asset sale or other extraordinary transaction covered by, and which does not constitute a Change in Control Event under, clause (c) below);

(b) A change, during any period of two consecutive years, of a majority of the Board as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "**Incumbent Directors**" shall consist of the directors holding office as of the Effective Date and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);

(c) Consummation of any merger, consolidation, reorganization or other extraordinary transaction (or series of related transactions) involving the Corporation, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each, a "**Business Combination**"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets directly or through one or more subsidiaries (a "**Parent**")), (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent, and excluding any underwriter in connection with a firm commitment public offering of the Corporation's capital stock) Beneficially Owns, directly or indirectly, more than thirty-three and one third percent of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were Incumbent Directors at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) The stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation (other than in the context of a merger, consolidation, reorganization, asset sale or other extraordinary transaction covered by, and which does not constitute a Change in Control Event under, clause (c) above).

7.4 ***Early Termination of Awards***. Any award that has been accelerated as required or contemplated by Section 7.2 or 7.3 (or would have been so accelerated but for Section 7.5, 7.6 or 7.7) shall terminate upon the related event referred to in Section 7.2 or 7.3, as applicable, subject to any provision that has been expressly made by the Administrator, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such award and provided that, in the case of options and SARs that will not survive, be substituted for, assumed, exchanged, or otherwise continued or settled in the transaction, the holder of such award shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding options and SARs in accordance with their terms (subject to Sections 7.5, 7.6 and 7.7 after giving effect to the acceleration of vesting) before the termination of such awards (except that in no case shall more than ten days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event).

7.5 ***Other Acceleration Rules***. Any acceleration of awards pursuant to this Section 7 shall comply with applicable legal requirements and, if necessary to accomplish the purposes of the acceleration or if the circumstances require, may be deemed by the Administrator to occur a limited period of time not greater than 30 days before the event. Without limiting the generality of the foregoing, the Administrator may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of an award if an event giving rise to an acceleration does not occur. The Administrator may override the provisions of Section 7.2, 7.3, 7.4 and/or 7.6 by express provision in the award agreement and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the award agreement or otherwise, in such circumstances as the Administrator may approve. The portion of any ISO accelerated in connection with a Change in Control Event or any other action permitted hereunder shall remain exercisable as an ISO only to the extent the applicable $100,000 limitation on ISOs is not exceeded. To the extent exceeded, the accelerated portion of the option shall be exercisable as a nonqualified stock option under the Code.

7.6 ***Possible Rescission of Acceleration***. If the vesting of an award has been accelerated expressly in anticipation of an event or upon stockholder approval of an event and the Administrator later determines that the event will not occur, the Administrator may rescind the effect of the acceleration as to any then outstanding and unexercised or otherwise unvested awards.

7.7 ***Golden Parachute Limitation***. Notwithstanding anything else contained in this Section 7 to the contrary, in no event shall an award be accelerated under this Plan to an extent or in a manner which would not be fully deductible by the Corporation or one of its Subsidiaries for federal income tax purposes because of Section 280G of the Code, nor shall any payment hereunder be accelerated to the extent any portion of such accelerated payment would not be deductible by the Corporation or one of its Subsidiaries because of Section 280G of the Code. If a participant would be entitled to benefits or payments hereunder and under any other plan or program that would constitute “parachute payments” as defined in Section 280G of the Code, then the participant may by written notice to the Corporation designate the order in which such parachute payments will be reduced or modified so that the Corporation or one of its Subsidiaries is not denied federal income tax deductions for any “parachute payments” because of Section 280G of the Code. Notwithstanding the foregoing, if a participant is a party to an employment or other agreement with the Corporation or one of its Subsidiaries, or is a participant in a severance program sponsored by the Corporation or one of its Subsidiaries, that contains express provisions regarding Section 280G and/or Section 4999 of the Code (or any similar successor provision), the Section 280G and/or Section 4999 provisions of such employment or other agreement or plan, as applicable, shall control as to any awards held by that participant (for example, and without limitation, a participant may be a party to an employment agreement with the Corporation or one of its Subsidiaries that provides for a “gross-up” as opposed to a “cut-back” in the event that the Section 280G thresholds are reached or exceeded in connection with a change in control and, in such event, the Section 280G and/or Section 4999 provisions of such employment agreement shall control as to any awards held by that participant).

8. OTHER PROVISIONS

8.1 ***Compliance with Laws***. This Plan, the granting and vesting of awards under this Plan, the offer, issuance and delivery of shares of Common Stock, the acceptance of promissory notes and/or the payment of money under this Plan or under awards are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law, federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Corporation or one of its Subsidiaries, provide such assurances and representations to the Corporation or one of its Subsidiaries as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

8.2 ***Employment Status***. No person shall have any claim or rights to be granted an award (or additional awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

8.3 ***No Employment/Service Contract***. Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of the Corporation or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee’s status as an employee at will, nor shall interfere in any way with the right of the Corporation or one of its Subsidiaries to change a person’s compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.

8.4 ***Plan Not Funded***. Awards payable under this Plan shall be payable in shares or from the general assets of the Corporation, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Corporation or one of its Subsidiaries by reason of any award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Corporation or one of its Subsidiaries and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to any award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

8.5 ***Tax Withholding***. Upon any exercise, vesting, or payment of any award or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an ISO prior to satisfaction of the holding period requirements of Section 422 of the Code, the Corporation or one of its Subsidiaries shall have the right at its option to:

(a) require the participant (or the participant’s personal representative or beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such award event or payment; or

(b) deduct from any amount otherwise payable in cash to the participant (or the participant's personal representative or beneficiary, as the case may be) the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such cash payment.

In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Administrator may in its sole discretion (subject to Section 8.1) grant (either at the time of the award or thereafter) to the participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares, valued in a consistent manner at their fair market value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law. The Corporation may, with the Administrator's approval, accept one or more promissory notes from any Eligible Person in connection with taxes required to be withheld upon the exercise, vesting or payment of any award under this Plan; provided that any such note shall be subject to terms and conditions established by the Administrator and the requirements of applicable law.

8.6 ***Effective Date, Termination and Suspension, Amendments***.

8.6.1 ***Effective Date***. This Plan is effective as of September 21, 2004, the date of its approval by the Board (the "**Effective Date**"). This Plan shall be submitted for and subject to stockholder approval no later than twelve months after the Effective Date. Unless earlier terminated by the Board, this Plan shall terminate at the close of business on the day before the tenth anniversary of the Effective Date. After the termination of this Plan either upon such stated expiration date or its earlier termination by the Board, no additional awards may be granted under this Plan, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

8.6.2 ***Board Authorization***. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No awards may be granted during any period that the Board suspends this Plan.

8.6.3 ***Stockholder Approval***. An amendment to this Plan shall be subject to stockholder approval: (a) if stockholder approval for the amendment is then required by applicable law or required under Sections 162, 422 or 424 of the Code to preserve the intended tax consequences of this Plan; (b) if the amendment constitutes a "material revision" of this Plan within the meaning of the applicable New York Stock Exchange listing rules or other applicable listing requirements; (c) if stockholder approval for the amendment is otherwise deemed necessary or advisable by the Board; or (d) if the amendment increases any of the share limits set forth in Section 4.2.

8.6.4 ***Amendments to Awards***. Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on awards to participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a participant, and (subject to the requirements of Sections 3.2 and 8.6.5) may make other changes to the terms and conditions of awards. Any amendment or other action that would constitute a repricing of an award is subject to the limitations set forth in Section 3.2(g).

8.6.5 ***Limitations on Amendments to Plan and Awards***. No amendment, suspension or termination of this Plan or change of or affecting any outstanding award shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Corporation under any award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7 shall not be deemed to constitute changes or amendments for purposes of this Section 8.6 and shall not require stockholder approval or the consent of the award holder.

8.7 ***Privileges of Stock Ownership***. Except as otherwise expressly authorized by the Administrator or this Plan, a participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

8.8 ***Governing Law; Construction; Severability***.

8.8.1 ***Choice of Law***. This Plan, the awards, all documents evidencing awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Delaware.

8.8.2 ***Severability***. If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

8.8.3 ***Plan Construction***.

(a) Rule 16b-3. It is the intent of the Corporation that the awards and transactions permitted by awards be interpreted in a manner that, in the case of participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Corporation shall have no liability to any participant for Section 16 consequences of awards or events under awards if an award or event does not so qualify.

(b) Section 162(m). Awards under Section 5.1.4 to persons described in Section 5.2 that are either granted or become vested, exercisable or payable based on attainment of one or more performance goals related to the Business Criteria, as well as Qualifying Options and Qualifying SARs granted to persons described in Section 5.2, that are approved by a committee composed solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code) shall be deemed to be intended as performance-based compensation within the meaning of Section 162(m) of the Code unless such committee provides otherwise at the time of grant of the award. It is the further intent of the Corporation that (to the extent the Corporation or one of its Subsidiaries or awards under this Plan may be or become subject to limitations on deductibility under Section 162(m) of the Code) any such awards and any other Performance-Based Awards under Section 5.2 that are granted to or held by a person subject to Section 162(m) will qualify as performance-based compensation or otherwise be exempt from deductibility limitations under Section 162(m).

8.9 ***Captions***. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

8.10 ***Stock-Based Awards in Substitution for Stock Options or Awards Granted by Other Corporation***. Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee stock options, SARs, restricted stock or other stock-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Corporation or one of its Subsidiaries, in connection with a distribution, merger or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Corporation or one of its Subsidiaries, directly or indirectly, of all or a substantial part of the stock or assets of the employing entity. The awards so granted need not comply with other specific terms of this Plan, provided the awards reflect only adjustments giving effect to the assumption or substitution consistent with the conversion applicable to the Common Stock in the transaction and any change in the issuer of the security. Any shares that are delivered and any awards that are granted by, or become obligations of, the Corporation, as a result of the assumption by the Corporation of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Corporation or one of its Subsidiaries in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.

8.11 ***Non-Exclusivity of Plan***. Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

8.12 ***No Corporate Action Restriction***. The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Corporation to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Corporation or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Corporation or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Corporation or any Subsidiary, (d) any dissolution or liquidation of the Corporation or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Corporation or any Subsidiary, or (f) any other corporate act or proceeding by the Corporation or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Corporation or any employees, officers or agents of the Corporation or any Subsidiary, as a result of any such action.

8.13 ***Other Company Benefit and Compensation Programs***. Payments and other benefits received by a participant under an award made pursuant to this Plan shall not be deemed a part of a participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Corporation or any Subsidiary, except where the Administrator expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans or arrangements of the Corporation or its Subsidiaries.

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As amended (Section 4.2) and restated January 21, 2005

As amended (Sections 3.1, 4.2, 4.3, 5.1.1, 5.1.3, 5.1.5, 5.7.2, 8.6.3, 8.6.5) September 22, 2005

As amended (Sections 7.1 and 7.2) November 6, 2008

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 Program (the "**Program**"), which is hereby amended and restated in its entirety effective as of November 6, 2008 (the "**Effective Date**"). 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 Directors***. Upon first being appointed or elected to the Board at any time after January 1, 2006, a Non-Employee Director who has not previously served on the Board 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 Non-Employee Director is first appointed or elected to the Board, divided by (ii) 365, multiplied by (iii) the number of days from the date such Non-Employee Director is first appointed or elected to the Board 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 unpaid 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 (the "**Vesting Date**").

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. Service for only a portion of the vesting period, even if a substantial portion, 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 incurs a Separation from Service (as defined below) 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:

- 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 Separation from Service shall immediately vest and become payable as provided in Section 9; (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 Separation from Service shall immediately vest and become payable as provided in Section 9; 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 Separation from Service, shall immediately terminate without payment therefor;

- if the Non-Employee Director's Separation from Service occurs 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 as provided in Section 9;

- if the Non-Employee Director's Separation from Service occurs 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 as provided in Section 9, 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, provided that such cessation constitutes a "separation from service" for purposes of Section 409A of the Code. 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.

For purposes of this Section 8, the term "**Separation from Service**," with respect to a Non-Employee Director, shall mean the date the Non-Employee Director ceases to be a member of the Board (regardless of the reason); provided, however, that if the Non-Employee Director is immediately thereafter employed by the Corporation or one of its Subsidiaries, such director's Separation from Service shall be the date such director incurs a "separation from service" as such term is defined for purposes of Section 409A of the Code.

9. <u>Timing and Manner of Payment of Stock Units</u>. Except as provided in Section 10 below, on or within fifteen (15) business days following the first to occur of the Vesting Date or the Non-Employee Director's Separation from Service, 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 (if any) that vest on the applicable date in accordance with the provisions hereof, 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 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 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; Construction. 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. It is intended that the terms of the Program and all Stock Unit Awards granted under the Program will not result in the imposition of any tax liability pursuant to Section 409A of the Code. The Program and all Stock Unit Awards granted hereunder shall be construed and interpreted consistent with that intent.

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WESTERN DIGITAL CORPORATION

NON-EMPLOYEE DIRECTORS STOCK-FOR-FEES PLAN

(As Amended November 6, 2008)

1. Purpose.

The purposes of this Western Digital Corporation Non-Employee Director Stock-For-Fees Plan (the "**Plan**") are to advance the interests of Western Digital Corporation (the "**Company**") and its stockholders by increasing ownership by the Company's non-employee directors of the Company's Common Stock, thereby aligning their interests more closely with the interests of the Company's other stockholders, and to make available to the Company the cash that would otherwise have been paid to non-employee directors receiving Common Stock in lieu of fees hereunder.

2. Administration.

The Plan shall be administered by the Company, which shall have the power to construe the Plan, to resolve all questions arising under the Plan, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and otherwise to carry out the terms of the Plan, but only to the extent not contrary to the express provisions of the Plan. The determinations, interpretations, and other actions of the Company of or under the Plan or with respect to any Common Stock granted pursuant to the Plan shall be final and binding for all purposes and on all persons. Neither the Company nor any officer or employee thereof shall be liable for any action or determination taken or made under the Plan in good faith. Notwithstanding the foregoing, the Company shall have no authority or discretion as to the persons who will receive Common Stock granted pursuant to the Plan, the number of shares of Common Stock to be issued under the Plan, the time at which such grants are made, the number of shares of Common Stock to be granted at any particular time, or any other matters that are specifically governed by the provisions of the Plan.

3. Participation in the Plan.

Directors of the Company who are not employees of the Company or any subsidiary of the Company ("**Eligible Directors**") shall be eligible to participate in the Plan. Each Eligible Director shall, if required by the Company, enter into an agreement with the Company in such form as the Company shall determine consistent with the provisions of the Plan for purposes of implementing the Plan or effecting its purposes. In the event of any inconsistency between the provisions of the Plan and any such agreement, the provisions of the Plan shall govern.

4. Stock Subject to the Plan.

(a) Number of Shares. The shares that may be issued under the Plan shall be authorized and unissued shares or treasury shares of the Company's Common Stock (the "**Common Stock**"). The maximum aggregate number of shares that may be issued under the

Plan shall be four hundred thousand (400,000), subject to adjustment upon changes in capitalization of the Company as provided in Section 4(b). The maximum aggregate number of shares issuable under the Plan may be increased from time to time by approval of the Company's Board of Directors, and by the stockholders of the Company if stockholder approval is required pursuant to the applicable rules of any stock exchange, or, in the opinion of the Company's counsel, any other law or regulation binding upon the Company.

(b) Adjustments. If the Company shall at any time increase or decrease the number of its issued and outstanding shares of Common Stock (whether by reason of reorganization, merger, consolidation, recapitalization, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure, or otherwise), then the number of shares of Common Stock still available for issue hereunder shall be increased or decreased appropriately and proportionately.

5. Stock Elections.

Each Eligible Director may make an "**Election**" to receive Common Stock in lieu of any or all of (i) the annual retainer fee otherwise payable to him or her in cash for that calendar year, and/or (ii) the meeting attendance fees otherwise payable to him or her in cash for that calendar year. Such Election for any calendar year must be in writing and must be delivered to the Secretary of the Company not later than the end of the immediately preceding calendar year. In addition, newly elected or appointed Eligible Directors shall make an interim Election as of the date they join the board, which interim Election shall be made on or before the date such Eligible Director joins the Board of Directors and shall govern until the immediately ensuing calendar year. Separate Elections must be made for each calendar year; if an Eligible Director does not make a written Election for any particular calendar year, then such Eligible Director shall be deemed to have elected to receive all meeting fees and his or her retainer fee for that calendar year in cash.

6. Issuance of Common Stock.

(a) Timing and Amounts of Issuances.

(i) Subject to Section 7, Common Stock issuable to an Eligible Director in lieu of annual retainer or meeting fees shall be issued not later than ten days after the date such annual retainer or meeting fees, as the case may be, would have been paid if paid in cash.

(ii) The number of shares of Common Stock issuable in lieu of cash annual retainer fees (whether or not deferred pursuant to Section 7) shall be determined by dividing the amount of cash fees being replaced by Common Stock by the Fair Market Value (as defined below) of the Common Stock on the first trading day of the calendar year for which the annual retainer is being paid or, in the case of an annual retainer being paid to a newly appointed or elected Eligible Director for a partial year, on the date such Eligible Director joins the board.

(iii) The number of shares of Common Stock issuable in lieu of cash meeting fees (whether or not deferred) shall be determined by dividing the amount of cash fees being replaced by Common Stock by the Fair Market Value of the Common Stock on the date of the meeting for which the fee is paid.

(b) Fractional Shares. No fractional shares shall be issued under the Plan. The portion of annual retainer or meeting fees that would be paid in Common Stock but for the proscription on fractional shares shall be paid in cash along with any portion of the fee that the Eligible Director has elected to receive in cash. For directors electing no cash for a particular calendar year, fractional share equivalent cash balances shall be held by the Company until the end of that calendar year and then distributed in cash to the Eligible Director without interest in January of the following calendar year.

(c) Fair Market Value. For the purposes of the Plan, the "**Fair Market Value**" of the Common Stock as of any issuance or deferral date shall be the closing price of the Common Stock on the New York Stock Exchange (or another national stock exchange if the Common Stock trades thereon but not on the NYSE) as of such date (or, if no such shares were traded on such date, as of the next preceding day on which there was such a trade, provided that the closing price on such preceding date is not less than 100% of the fair market value of the Common Stock, as determined in good faith by the Company, on the date of issuance). If at any time the Common Stock is no longer traded on a national stock exchange, the Fair Market Value of the Common Stock as of any issuance date shall be as determined by the Company in good faith in the exercise of its reasonable discretion.

(d) Issuance of Certificates. As promptly as practicable following each issuance of Common Stock hereunder, the Company shall issue to the recipient Eligible Director a stock certificate or certificates registered in his or her name representing the number of shares of Common Stock issued.

7. Deferral.

(a) Election to Defer. An Eligible Director may elect to defer the receipt of any cash or stock annual retainer or meeting fees payable during the period to which an Election applies. Any such deferral election by an Eligible Director shall specify whether the fees to be deferred are fees that the Eligible Director is required or has elected to receive in Common Stock, and shall be made and take effect at the times specified in the Company's Deferred Compensation Plan (the "**Deferred Compensation Plan**"). The deferral shall not change the form (cash versus Common Stock) in which the fee is to be paid at the end of the deferral period, notwithstanding the fact that during the deferral period fees ultimately payable in Common Stock may be general unsecured obligations of the Company to the Eligible Director.

(b) [Reserved]

(c) Plan Shares. All shares issued or issuable under the Plan, including deferred shares, shall be deducted from the shares available under the Plan at the time first issued or deferred, provided that shares deferred and not ultimately issued and delivered to the Eligible Director shall be returned to the pool of available shares under the Plan.

(d) Deferred Compensation Plan. Deferral of Eligible Directors' fees, whether payable in cash or Common Stock, shall be administered pursuant to the Deferred Compensation Plan.

8. Securities Laws.

(a) Investment Representations. The Company may require any Eligible Director to whom an issuance of securities is made or a deferred delivery obligation is undertaken as a condition of receiving securities pursuant to such issuance or obligation to give written assurances in substance and form satisfactory to the Company and its counsel to the effect the such person is acquiring the securities for his or her own account for investment and not with any present intention of selling or otherwise distributing the same in violation of applicable securities laws, and to such other effects as the Company deems necessary or appropriate to comply with federal and applicable state securities laws.

(b) Listing, Registration, and Qualification. Anything to the contrary herein notwithstanding, each issuance of securities shall be subject to the requirement that, if at any time the Company or its counsel shall determine that the listing, registration, or qualification of the securities subject to such issuance upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary or advisable as a condition of, or in connection with, such issuance of securities, such issuance shall not occur in whole or in part unless such listing, registration, qualification, consent, or approval shall have been effected or obtained on conditions acceptable to the Company. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration, or qualification.

(c) Restrictions on Transfer. The securities issued under the Plan shall be restricted by the Company as to transfer unless the grants are made under a registration statement that is effective under the Securities Act of 1933, as amended, or unless the Company receives an opinion of counsel satisfactory to the Company to the effect that registration under state or federal securities laws is not required with respect to such transfer.

9. Withholding Taxes.

Whenever shares of Common Stock are to be issued under the Plan, the Company shall have the right prior to the delivery of any certificate or certificates for such shares to require the recipient to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements attributable to the issuance. In the absence of payment by an Eligible Director to the Company of an amount sufficient to satisfy such withholding taxes, or an alternative arrangement with the Eligible Director that is satisfactory to the Company, the Company may make such provisions as it deems appropriate for the withholding of any such taxes which the Company determines it is required to withhold.

10. Amendment of the Plan.

The Board of Directors of the Company may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time-to-time in any respect the Board of Directors may deem to be in the best interests of the Company; provided, however, that no such amendment shall be effective without approval of the stockholders of the Company if stockholder approval of the amendment is then required pursuant to the applicable rules of any securities exchange, or, in the opinion of the Company's counsel, any other law or regulation binding on the Company.

11. Effective Date and Duration of the Plan.

The Plan shall, subject to approval by the Company's stockholders at the Company's 1992 Annual Meeting, be effective January 1, 1993. The Plan shall terminate at 11:59 p.m. on December 31, 2012, unless sooner terminated by action of the Board of Directors. Elections may be made under the Plan prior to its effectiveness, but no issuances under the Plan shall be made before its effectiveness or after its termination.

12. Governing Laws.

The Plan and all rights and obligations under the Plan shall be construed in accordance with and governed by the laws of the State of California, excluding its conflicts of laws principles.

13. Construction.

The Plan is intended to comply with Section 409A of the U.S. Internal Revenue Code of 1986, as amended (including the Treasury regulations and other published guidance relating thereto) (collectively, "**Section 409A**"), so as not to subject any Eligible Director to payment of any additional tax, penalty or interest imposed under Section 409A. The provisions of the Plan shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Eligible Director.

Exhibit 10.7

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	$600,000
Timothy M. Leyden	Executive Vice President and Chief Financial Officer	$412,500
Raymond M. Bukaty	Senior Vice President, Administration, General Counsel and Secretary	$348,500
Hossein Moghadam	Senior Vice President, Chief Technology Officer	$348,500

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 annual retainer and committee membership fees payable for 2009 to each of the Company's non-employee directors:

Type of Fee	Retainer Fees (Effective For 2009)
Annual Retainer	$ 63,750
Lead Independent Director Retainer	$ 17,000
Non-Executive Chairman of Board Retainer	$ 85,000
Additional Committee Retainers	
• Audit Committee	$ 8,500
• Compensation Committee	$ 4,250
• Governance Committee	$ 2,125
Additional Committee Chairman Retainers	
• Audit Committee	$ 12,750
• Compensation Committee	$ 8,500
• Governance Committee	$ 6,375

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.

Exhibit 10.14

WESTERN DIGITAL CORPORATION

AMENDED AND RESTATED

CHANGE OF CONTROL SEVERANCE PLAN

1. Purpose of Plan. The Executives have made and are expected to make major contributions to the profitability, growth and financial strength of the Company and its affiliates. In addition, the Company considers the continued availability of the Executives' services, managerial skills and business experience to be in the best interest of the Company and its stockholders and desires to assure the continued services of the Executives on behalf of the Company and/or its affiliates without the distraction of the Executives occasioned by the possibility of an abrupt change in control of the Company. This Plan was initially approved by the Board on March 29, 2001 and subsequently amended and restated on November 6, 2008.

2. Definitions. Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary:

2.01 "Board" shall mean the Board of Directors of the Company.

2.02 "Cause" shall mean the occurrence or existence of any of the following with respect to the Executive, as determined by a majority of the disinterested directors of the Board or the Committee:

(a) the Executive's conviction by, or entry of a plea of guilty or nolo contendere in, a court of competent and final jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;

(b) whether prior or subsequent to the date hereof, the Executive's willful engaging in dishonest or fraudulent actions or omissions which results directly or indirectly in any demonstrable material financial or economic harm to the Company or any of its subsidiaries or affiliates;

(c) the Executive's failure or refusal to perform his or her duties as reasonably required by the Employer, provided that the Executive shall have first received written notice from the Employer stating with specificity the nature of such failure or refusal and affording the Executive at least five (5) days to correct the act or omission complained of;

(d) gross negligence, insubordination, material violation by the Executive of any duty of loyalty to the Company or any subsidiary or affiliate of the Company, or any other material misconduct on the part of the Executive, provided that the Executive shall have first received written notice from the Company stating with specificity the nature of such action or violation and affording the Executive at least five (5) days to correct such action or violation;

(e) the repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Board's reasonable determination renders the Executive unfit to serve in his or her capacity as an officer or employee of the Company or any of its subsidiaries or affiliates;

(f) sexual harassment by the Executive that has been reasonably substantiated and investigated;

(g) involvement in activities representing conflicts of interest with the Company or any of its subsidiaries or affiliates;

(h) improper disclosure of confidential information;

(i) conduct endangering, or likely to endanger, the health or safety of another employee;

(j) falsifying or misrepresenting information on the records of the Company or any of its subsidiaries or affiliates; or

(k) the Executive's physical destruction or theft of substantial property or assets of the Company or any of its subsidiaries or affiliates.

2.03 "<u>Change in Control</u>" shall mean an occurrence of any of the following events, unless the Board shall provide otherwise:

(a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, a "Person"), alone or together with its affiliates and associates, including any group of persons which is deemed a "person" under Section 13(d)(3) of the Exchange Act (other than the Company or any subsidiary thereof or any employee benefit plan (or related trust) of the Company or any subsidiary thereof, or any underwriter in connection with a firm commitment public offering of the Company's capital stock), becomes the "beneficial owner" (as such term is defined in Rule 13d-3 of the Exchange Act, except that a person shall also be deemed the beneficial owner of all securities which such person may have a right to acquire, whether or not such right is presently exercisable, referred to herein as "Beneficially Own" or "Beneficial Owner" as the context may require) of thirty-three and one third percent or more of (i) the then outstanding shares of the Company's common stock ("Outstanding Company Common Stock") or (ii) securities representing thirty-three and one-third percent or more of the combined voting power of the Company's then outstanding voting securities ("Outstanding Company Voting Securities") (in each case, other than an acquisition in the context of a merger, consolidation, reorganization, asset sale or other extraordinary transaction covered by, and which does not constitute a Change in Control under, clause (c) below);

(b) a change, during any period of two consecutive years, of a majority of the Board as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, "Incumbent Directors" shall consist of the directors holding office as of the Effective Date and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);

(c) consummation of any merger, consolidation, reorganization or other extraordinary transaction (or series of related transactions) involving the Company, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a "Business Combination"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets directly or through one or more subsidiaries (a "Parent")), (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or Parent, and excluding any underwriter in connection with a firm commitment public offering of the Company's capital stock) Beneficially Owns, directly or indirectly, more than thirty-three and one third percent of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were Incumbent Directors at the time of execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company (other than in the context of a merger, consolidation, reorganization, asset sale or other extraordinary transaction covered by, and which does not constitute a Change in Control under, clause (c) above).

2.04 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.05 "Committee" shall mean the Compensation Committee of the Board.

2.06 "Company" shall mean Western Digital Corporation, a Delaware corporation, and, as permitted by Section 13.03(b), its successors and assigns.

2.07 "Date of Termination" following a Change in Control shall mean the dates, as the case may be, for the following events: (a) if the Executive's employment is terminated by death, the date of death, (b) if the Executive's employment is terminated due to a Permanent Disability, thirty (30) days after the Notice of Termination is given (provided that the Executive shall not have returned to the performance of his or her duties on a full-time basis during such period), (c) if the Executive's employment is terminated pursuant to a termination for Cause, the date specified in the Notice of Termination, and (d) if the Executive's employment is terminated for any other reason, fifteen (15) days after delivery of the Notice of Termination unless otherwise agreed by the Executive and the Company.

2.08 "Disability" shall mean that the Executive is unable, by reason of injury, illness or other physical or mental impairment, to perform each and every task of the position for which the Executive is employed, which inability is certified by a licensed physician reasonably selected by the Employer.

2.09 "Effective Date" shall mean March 29, 2001.

2.10 "Employer" shall mean the Company or its subsidiary employing Executive, *provided however*, that nothing contained herein shall prohibit the Company or another of its subsidiaries fulfilling any obligation of the employing entity to the Executive and for such purposes will be deemed the act of the Employer.

2.11 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.12 "Executive" shall mean any Tier 1 Executive or Tier 2 Executive.

2.13 "Good Reason" shall mean any of the following without the Executive's express written consent:

(a) a material diminution in the Executive's authority, duties or responsibilities in effect immediately prior to the Change in Control;

(b) a material diminution by the Employer in the Executive's base compensation in effect immediately prior to a Change in Control;

(c) any material breach by the Company or the Employer of any provision of this Plan;

(d) the requirement by the Employer that the Executive's principal place of employment be relocated more than fifty (50) miles from his or her place of employment immediately prior to a Change in Control; or

(e) the Company's failure to obtain a satisfactory agreement from any successor to assume and agree to perform the Company's obligations under this Plan, as contemplated in Section 13.03(b) hereof;

provided, however, that any such condition shall not constitute "Good Reason" unless both (i) the Executive provides written notice to the Company of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (ii) the Company fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Executive's employment with the Company shall not be treated as a termination for "Good Reason" unless such termination occurs not more than one (1) year following the initial existence of the condition claimed to constitute "Good Reason."

2.14 “Notice of Termination” shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.

2.15 “Permanent Disability” shall mean if, as a result of the Executive’s Disability, the Executive shall have been absent from his or her duties with the Employer on a full-time basis for six (6) months of any consecutive eight (8) month period.

2.16 “Separation from Service,” with respect to an Executive, shall mean that the Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

2.17 “Termination of Employment” shall mean the time when the employee-employer relationship between the Executive and the Employer is terminated for any reason, voluntarily or involuntarily, with or without Cause, including, without limitation, a termination by reason of resignation, discharge (with or without Cause), Permanent Disability, death or retirement, but excluding terminations where there is a simultaneous re-employment of the Executive by the Company or a subsidiary of the Company.

2.18 “Tier 1 Executive” shall mean an officer of the Company who is elected or appointed by the Board of Directors and is subject to Section 16 of the Exchange Act.

2.19 “Tier 2 Executive” shall mean an employee who is appointed as an officer of the Company by the President of the Company pursuant to the Company’s Bylaws and such other employee of the Company or any of its subsidiaries who is designated as a Tier 2 Executive by the Board or the Committee.

3. Term. This Plan shall be effective until March 29, 2011.

4. Compensation Upon A Change In Control.

4.01 Salary. Commencing on the date a Change in Control shall occur, the Employer shall pay a salary to the Executive at an annual rate at least equal to the annual salary payable to the Executive immediately prior to such date. The salary, as it may be changed from time to time by mutual agreement between the Executive and the Employer, shall be paid in equal installments on each regular payroll payment date after the date of the Change in Control and shall be subject to regular withholding for federal, state and local taxes in accordance with law.

4.02 Other Benefits.

(a) Commencing on the date a Change in Control shall occur, the Executive shall be entitled to participate in and to receive benefits under those employee benefit plans or arrangements (including, without limitation, any pension or welfare plan, life, health, hospitalization and other forms of insurance and all other “fringe” benefits or perquisites) made available to executives of the Company or the Employer, or any successor thereto. The

Executive's level of participation in, or entitlements under, any such employee benefit plan or arrangement of any successor to the Company shall be calculated as if the Executive had been an employee of such successor to the Company from the date of the Executive's employment by the Employer.

(b) Commencing on the date a Change in Control shall occur, the Executive shall be entitled to reimbursement for all reasonable travel and other business expenses incurred by the Executive in the performance of his or her duties on behalf of the Employer. Any such reimbursement shall be paid in accordance with the usual practices of the Employer and in all events not later than the end of the Executive's taxable year following the Executive's taxable year in which the related expense was incurred.

5. Termination of Employment of Executive.

5.01 Payment of Severance Benefits Upon Change of Control. In the event of a Change in Control of the Company, Executive shall be entitled to the severance benefits set forth in Section 6, but only if during the term of this Plan:

(a) the Executive's employment by the Employer is terminated by the Employer without Cause within one (1) year after the date of the Change in Control;

(b) the Executive terminates his or her employment with the Employer for Good Reason within one (1) year after the date of the Change in Control and complies with the procedures set forth in Section 5.02;

(c) the Executive's employment by the Employer is terminated by the Employer without Cause prior to the Change in Control and such termination arose in connection with or in anticipation of the Change in Control (for purposes of this Plan, meaning that at the time of such termination the Company had entered into an agreement, the consummation of which would result in a Change in Control, or any person had publicly announced its intent to take or consider actions that would constitute a Change in Control, and in each case such Change in Control is consummated, or the Board adopts a resolution to the effect that a potential Change in Control for purposes of this Plan has occurred); or

(d) the Executive terminates his or her employment with the Employer for Good Reason prior to the Change in Control, the event constituting Good Reason arose in connection with or in anticipation of the Change in Control and the Executive complies with the procedures set forth in Section 5.02.

5.02 Good Reason.

(a) Notwithstanding anything contained in any employment agreement between the Executive and the Employer to the contrary, during the term of this Plan the Executive may terminate his or her employment with the Employer for Good Reason as set forth in Section 5.01(b) or (d) and be entitled to the benefits set forth in Section 6.

(b) If the Executive believes that he or she is entitled to terminate his or her employment with the Employer for Good Reason, he or she may apply in writing to the

Company for confirmation of such entitlement prior to the Executive's actual separation from employment, by following the claims procedure set forth in Section 9. The submission of such a request by the Executive shall not constitute "Cause" for the Company to terminate the Executive's employment and the Executive shall continue to receive all compensation and benefits he or she was receiving at the time of such submission throughout the resolution of the matter pursuant to the procedures set forth in Section 9. If the Executive's request for a termination of employment for Good Reason is denied under both the request and appeal procedures set forth in Sections 9.02 and 9.03, then the parties shall use their best efforts to resolve the claim within ninety (90) days after the claim is submitted to binding arbitration pursuant to Section 9.04. Notwithstanding the foregoing provisions of this Section 5.02(b), the Executive's termination shall not constitute a termination for Good Reason unless the applicable notice, cure and termination provisions set forth in the definition of Good Reason above are satisfied.

5.03 Permanent Disability. In the event of a Permanent Disability of the Executive, the Executive shall be entitled to no further benefits under this Plan, provided that the Employer shall have provided the Executive a Notice of Termination and the Executive shall not have returned to the full-time performance of the Executive's duties within thirty (30) days of such Notice of Termination.

5.04 Cause. The Employer may terminate the employment of the Executive for Cause. The Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a Notice of Termination and a certified copy of a resolution of the Board adopted by the affirmative vote of not less than a majority of the entire membership of the Board (other than the Executive if he or she is a member of the Board at such time) at a meeting called and held for that purpose and at which the Executive was given an opportunity to be heard, finding that the Executive was guilty of conduct constituting Cause based on reasonable evidence, specifying the particulars thereof in detail. For purposes of this Section 5.04, no act or failure to act on the Executive's part shall be considered "willful" unless done or omitted to be done by him or her not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company and the Employer.

5.05 Notice of Termination. Any termination of the Executive's employment by the Employer or by the Executive (other than termination based on the Executive's death) following a Change in Control shall be communicated by the terminating party in a Notice of Termination to the other party hereto.

6. Compensation and Benefits Upon Termination of Employment.

6.01 Severance Benefits. If the Executive shall be terminated from employment with the Employer or shall terminate his or her employment with the Employer as described in Section 5.01, then the Executive shall be entitled to receive the following:

(a) In lieu of any further payments to the Executive except as expressly contemplated hereunder, the Employer shall pay as severance pay to the Executive an amount equal to two times (in the case of a Tier 1 Executive) or one times (in the case of a Tier 2 Executive) the sum of the Executive's annual base compensation plus his or her target bonus plus his or her annualized car allowance, in each case as in effect immediately prior to the Change in Control or as in effect on the date of the Notice of Termination, whichever is higher. Subject to Section 6.03, such cash payment shall be payable in a single sum, within ten (10) business days following the Executive's Separation from Service.

(b) Any then-outstanding and unvested stock options granted to the Executive by the Company shall become 100% vested and may be exercised by the Executive for the longer of (i) ninety (90) days after the Date of Termination or (ii) the period specified in the plan or agreement governing such options (subject in each case to earlier termination at the end of the option term or in connection with a change in control of the Company in accordance with the provisions of such plan or agreement).

(c) For a period of twenty-four months (in the case of a Tier 1 Executive) or twelve months (in the case of a Tier 2 Executive) following the Executive's Date of Termination (the "payment period"), the Executive shall be entitled to the continuation of the same or equivalent life, health, hospitalization, dental and disability insurance coverage and other employee insurance or welfare benefits (including equivalent coverage for his or her spouse and dependent children) as he or she was receiving immediately prior to the Change in Control. In the event that the Executive is ineligible under the terms of such insurance to continue to be so covered, the Employer shall provide the Executive with a lump sum payment equal to the cost of obtaining such coverage for the payment period. If the Executive, prior to a Change in Control, was receiving any cash-in-lieu payments designed to enable the Executive to obtain insurance coverage of his or her choosing, the Employer shall, in addition to any other benefits to be provided under this Section 6.01(c), provide the Executive with a lump-sum payment equal to the amount of such in-lieu payments that the Executive would have been entitled to receive over the payment period. To the extent that the payment of any benefits pursuant to this Section 6.01(c) is taxable to the Executive, any such payment shall be made to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred, provided that any lump-sum payment made to the Executive pursuant to either of the preceding two sentences shall be made within ten (10) business days following the Executive's Separation from Service. The Executive's right to payment of such benefits is not subject to liquidation or exchange for another benefit and the amount of such benefits that the Executive receives in one taxable year shall not affect the amount of such benefits that the Executive receives in any other taxable year. The benefits to be provided under this Section 6.01(c) shall be reduced to the extent of the receipt of substantially equivalent coverage by the Executive from any successor employer.

(d) All awards under the Company's Executive Retention Plan adopted in July, 1998 or any similar plan shall accelerate and be payable within fifteen (15) days after the Executive's Separation from Service.

(e) If any payments received by a Tier 1 Executive pursuant to this Plan will be subject to the excise tax imposed by Section 4999 of the Code, or any successor or similar provision of the Code or any comparable provision of state law (the "Excise Tax"), the Employer shall pay to the Tier 1 Executive additional compensation such that the net amount received by the Tier 1 Executive after deduction of any Excise Tax (and taking into account any federal, state and local income taxes payable by the Tier 1 Executive as a result of the receipt of such gross-up compensation), shall be equal to the total payments he or she would have received had no such Excise Tax (or any interest or penalties thereon arising primarily from the acts or omissions of the Employer) been paid or incurred. The Employer shall pay such additional compensation at the time when the Employer withholds such Excise Tax from any payments to the Tier 1 Executive. The calculation of the tax gross-up payment shall be approved by the Company's independent certified public accounting firm and the Tier 1 Executive's designated financial advisor.

(f) In the event that the amount of payments or other benefits payable to a Tier 2 Executive under this Plan, together with any payments or benefits payable under any other plan, program, arrangement or agreement maintained by the Employer or one of its affiliates, would constitute an 'excess parachute payment' (within the meaning of Section 280G of the Code), the payments under this Plan shall be reduced (by the minimum possible amounts) until no amount payable to the Tier 2 Executive under this Plan constitutes an 'excess parachute payment' (within the meaning of Section 280G of the Code); provided, however, that no such reduction shall be made if the net after-tax payment (after taking into account Federal, state, local or other income and excise taxes) to which the Tier 2 Executive would otherwise be entitled without such reduction would be greater than the net after-tax payment (after taking into account Federal, state, local or other income and excise taxes) to the Tier 2 Executive resulting from the receipt of such payments with such reduction. If, as a result of subsequent events or conditions (including a subsequent payment or absence of a subsequent payment under this Plan or other plans, programs, arrangements or agreements maintained by the Employer or one of its affiliates), it is determined that payments hereunder have been reduced by more than the minimum amount required under this Section 6.01(f), then an additional payment shall be promptly made to the Tier 2 Executive in an amount equal to the excess reduction. All determinations required to be made under this Section 6.01(f), including whether a payment would result in an 'excess parachute payment' and the assumptions to be utilized in arriving at such determination, shall be made and approved by the Company's independent certified public accounting firm and the Tier 2 Executive's designated financial advisor.

6.02 Accrued Benefits. Upon termination of the employment of Executive for any reason, any accumulated but unused vacation shall be paid through the Date of Termination. Upon termination of the employment of Executive as set forth in Section 5.01, any accrued but unpaid bonus shall be paid through the Date of Termination. Unless otherwise specifically provided in this Plan, any payments or benefits payable to the Executive hereunder, including without limitation any bonus, in respect of any calendar year during which the Executive is employed by the Employer for less than the entire such year shall be prorated in accordance with the number of days in such calendar year during which he or she is so employed.

6.03 Specified Employees. The provisions of this Section 6.03 shall apply if any severance payments hereunder constitute "deferred compensation" (within the meaning of Section 409A of the Code) payable upon the Executive's Separation from Service and, in such event, such provisions shall apply only to the extent required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the Code. It is the Company's intent that severance payments hereunder should not constitute "deferred compensation" payable upon a Separation from Service (because such payments should constitute a "short-term deferral" within the meaning of Code Section 409A or otherwise) based on the guidance available as of the date hereof and, accordingly, should not be subject to the delayed-payment provisions set forth in this Section 6.03. Notwithstanding Section 6.01(a) or any other provision of this Plan to the contrary, if the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Executive's Separation from Service, the Executive shall not be entitled to any severance payments hereunder until the earlier of (i) the date which is six (6) months after the Executive's Separation from Service for any reason other than death, or (ii) the date of the Executive's death. Any amounts otherwise payable to the Executive upon or in the six (6) month period following the Executive's Separation from Service that are not so paid by reason of this Section 6.03 shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Executive's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Executive's death).

7. No Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for by this Plan by seeking employment or otherwise, nor shall the amount of any cash payments or benefits provided under this Plan be reduced by any compensation or benefits earned by the Executive after his or her Date of Termination (except as provided in the last sentence of Section 6.01(d) above). Notwithstanding the foregoing, if the Executive is entitled, by operation of any applicable law, to unemployment compensation benefits or benefits under the Worker Adjustment and Retraining Act of 1988 (known as the "WARN" Act) in connection with the termination of his or her employment in addition to amounts required to be paid to him or her under this Plan, then to the extent permitted by applicable statutory law governing severance payments or notice of termination of employment, the Company shall be entitled to offset the amounts payable hereunder by the amounts of any such statutorily mandated payments.

8. Limitation on Rights.

8.01 No Employment Contract. This Plan shall not be deemed to create a contract of employment between the Employer and the Executive and shall create no right in the Executive to continue in the Employer's employment for any specific period of time, or to create any other rights in the Executive or obligations on the part of the Company or its subsidiaries, except as set forth herein. Except as set forth herein, this Plan shall not restrict the right of the Employer to terminate the employment of Executive, or restrict the right of the Executive to terminate his or her employment.

8.02 No Other Exclusions. This Plan shall not be construed to exclude the Executive from participation in any other compensation or benefit programs in which he or she is specifically eligible to participate either prior to or following the Effective Date of this Plan, or any such programs that generally are available to other executive personnel of the Company, nor shall it affect the kind and amount of other compensation to which the Executive is entitled.

9. Administrator and Claims Procedure.

9.01 Administrator. Except as set forth herein, the administrator (the "Administrator") for purposes of this Plan shall be the Company. The Company shall have the right to designate one or more of the Company's or the Employer's employees as the

Administrator at any time. The Company shall give the Executive written notice of any change in the Administrator, or in the address or telephone number of the same.

9.02 Claims Procedure. The Executive, or other person claiming through the Executive, must file a written claim for benefits with the Administrator as a prerequisite to the payment of benefits under this Plan. The Administrator shall make all determinations as to the right of any person to receive benefits under Sections 9.02 and 9.03. The decision by the Administrator of a claim for benefits by the Executive, his or her heirs or personal representative (the "claimant") shall be stated in writing by the Administrator and delivered or mailed to the claimant within thirty (30) days after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial thirty-day period. In no event shall such extension exceed a period of thirty (30) days from the end of the initial period. Any notice of denial shall set forth the specific reasons for the denial, specific reference to pertinent provisions of this Plan upon which the denial is based, a description of any additional material or information necessary for the claimant to perfect his or her claim, with an explanation of why such material or information is necessary, and a description of claim review procedures, written to the best of the Administrator's ability in a manner that may be understood without legal or actuarial counsel.

9.03 Appeals. A claimant whose claim for benefits has been wholly or partially denied by the Administrator may request, within sixty (60) days following the date of such denial, in a writing addressed to the Administrator, a review of such denial. The claimant shall be entitled to submit written comments, documents, records and other information he or she shall consider relevant to a determination of his or her claim, and he or she may include a request for a hearing in person before the Administrator. Prior to submitting his or her request, the claimant shall be entitled to review such documents, records, and other information as the Administrator shall reasonably agree are pertinent to his or her claim. The claimant may, at all stages of the review, be represented by counsel, legal or otherwise, of his or her choice, provided that the fees and expenses of such counsel shall be borne by the claimant, unless the claimant is successful, in which case, such costs shall be borne by the Company. The review of the claim shall take into account all information submitted by claimant relating to the claim, without regard to whether such information was submitted in the initial benefit determination. All requests for review shall be promptly resolved. The Administrator's decision with respect to any such review shall be set forth in writing and shall be mailed to the claimant not later than sixty (60) days following receipt by the Administrator of the claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Administrator's decision shall be so mailed not later than one hundred and twenty (120) days after receipt of the claimant's request. The time and place of any hearing shall be as mutually agreed by the parties. If the claimant is dissatisfied with the Administrator's decision on review, the claimant may then either, at his or her option, invoke the arbitration procedures described in Section 9.04 or pursue a remedy in a judicial forum. No legal action may be commenced prior to the completion of the claims and appeals procedures described in the foregoing provisions of Section 9.02 and 9.03. Notwithstanding the foregoing, no legal action may be commenced after ninety (90) days after the date upon which the Administrator's written decision on appeal was sent to claimant.

9.04 Arbitration. A claimant who has followed the procedures in Sections 9.02 and 9.03, but who has not obtained full relief on his or her claim for benefits, may, within sixty (60) days following his or her receipt of the Administrator's written decision on review pursuant to Section 9.03, apply in writing to the Administrator for expedited and binding arbitration of his or her claim before an arbitrator in Orange County, California in accordance with the commercial arbitration rules of the American Arbitration Association, as then in effect, or pursuant to such other form of alternative dispute resolution as the parties may agree (collectively, the "arbitration"). Subject to Section 10, the Company or the Employer shall pay filing fees and other costs required to initiate the arbitration. The arbitrator's sole authority shall be to interpret and apply the provisions of this Plan; and except as set forth herein he or she shall not change, add to, or subtract from, any of its provisions. The arbitrator shall have the power to compel attendance of witnesses at the hearing. Any court having jurisdiction may enter a judgment based upon such arbitration. The arbitrator shall be appointed by mutual agreement of the Company and the claimant; provided that if the Company and the claimant cannot agree, the arbitrator shall be appointed pursuant to the applicable commercial arbitration rules. The arbitrator shall be a professional person with a reputation in the community for expertise in employee benefit matters and who is unrelated to the claimant, the Company or its subsidiaries or any employees of the Company or its subsidiaries. All decisions of the arbitrator shall be final and binding on the claimant and the Company.

10. Legal Fees and Expenses. If any dispute arises between the parties with respect to the interpretation or performance of this Plan, the prevailing party in any arbitration or proceeding shall be entitled to recover from the other party its attorneys fees, arbitration or court costs and other expenses incurred in connection with any such proceeding. Amounts, if any, paid to the Executive under this Section 10 shall be in addition to all other amounts due to the Executive pursuant to this Plan.

11. ERISA. This Plan is an unfunded compensation arrangement for a member of a select group of the Company's management or that of its subsidiaries and any exemptions under the Employee Retirement Income Security Act of 1974, as amended, as applicable to such an arrangement shall be applicable to this Plan.

12. Taxes. The Executive shall be solely responsible for his or her own tax liability with respect to participation in this Plan. The Company may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Plan such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation. Notwithstanding anything else contained herein to the contrary, nothing in this Plan is intended to constitute, nor does it constitute, tax advice, and in all cases, the Executive should obtain and rely solely on the tax advice provided by the Executive's own independent tax advisors (and not this Plan, the Company, any of the Company's affiliates, or any officer, employee or agent of the Company or any of its affiliates).

13. Miscellaneous.

13.01 Administration. This Plan may be administered by the Board or the Committee. When this Plan refers to any action by the Board, the Committee may take such action with the same effect as if it had been taken by the Board.

13.02 Amendments. This Plan may be changed, amended or modified by resolution of the Board or the Committee.

13.03 Assignment and Binding Effect.

(a) Neither this Plan nor the rights or obligations hereunder shall be assignable by the Executive or the Company except that this Plan shall be assignable to, binding upon and inure to the benefit of any successor of the Company, and any successor shall be deemed substituted for the Company upon the terms and subject to the conditions hereof'.

(b) The Company will require any successor (whether by purchase of assets, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform all of the obligations of the Company under this Plan (including the obligation to cause any subsequent successor to also assume the obligations of this Plan) unless such assumption occurs by operation of law. Nothing in this Section 13.03 is intended, however, to require that a person or group referred to in Section 2.03(a) as being the beneficial owner of shares of stock of the Company must assume the obligations under this Plan as a result of such stock ownership.

13.04 No Waiver. No waiver of any term, provision or condition of this Plan, whether by conduct or otherwise, in any one or more instances shall be deemed or be construed as a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of this Plan.

13.05 Rules of Construction.

(a) This Plan has been executed in, and shall be governed by and construed in accordance with the laws of, the State of California. Captions contained in this Plan are for convenience of reference only and shall not be considered or referred to in resolving questions of interpretation with respect to this Plan.

(b) If any provision of this Plan is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Plan will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Plan will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Plan will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Plan a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

13.06 Notices. Any notice required or permitted by this Plan shall be in writing, delivered by hand, or sent by registered or certified mail, return receipt requested, or by recognized courier service (regularly providing proof of delivery), addressed to the Board and the Company and where applicable, the Administrator, at the Company's then principal office, or to the Executive at the address set forth in the records of the Employer, as the case may be, or to such other address or addresses the Company or the Executive may from time to time specify in writing. Notices shall be deemed given when received.

13.07 Section 409A. This Plan is intended to comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject any Executive to payment of any interest or additional tax imposed under Code Section 409A. The provisions of this Plan shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

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WESTERN DIGITAL CORPORATION
EXECUTIVE SEVERANCE PLAN

1. PURPOSE

The purpose of the Plan is to provide severance benefits to certain Executives whose employment with the Company or a Subsidiary terminates under certain circumstances as described more fully herein.

2. EFFECTIVE DATE

All of the policies and practices of the Company and its Subsidiaries regarding severance benefits or similar payments upon employment termination with respect to Executives in the United States, other than written employment, separation or equity award agreements with the Company or a Subsidiary that provide severance benefits or the Company's Amended and Restated Change of Control Severance Plan, are hereby superseded by the Plan, which shall be known as the Western Digital Corporation Executive Severance Plan, effective as of the Effective Date. The Plan was initially approved by the Board on February 16, 2006 and subsequently amended and restated on
November 6, 2008.

3. DEFINITIONS

"Administrator" means the Committee or any delegate of such committee acting within the authority delegated to it pursuant to Section 9.1.

"Base Pay" means the employee's wages earned on a monthly basis, determined as of the employment termination date, excluding bonuses and commissions.

"Board" means the Board of Directors of the Company.

"Cause" means the occurrence or existence of any of the following with respect to an Executive:

(a) the Executive's conviction by, or entry of a plea of guilty or *nolo contendere* in, a court of competent jurisdiction for any crime involving moral turpitude or any felony punishable by imprisonment in the jurisdiction involved;

(b) whether prior or subsequent to the Effective Date, the Executive's willful engaging in dishonest or fraudulent actions or omissions;

(c) failure or refusal to perform his or her duties as reasonably required by the Company and/or a Subsidiary that employs the Executive;

(d) negligence, insubordination, violation by the Executive of any duty (of loyalty or otherwise) owed to the Company and/or a Subsidiary, or any other misconduct on the part of the Executive;

(e) repeated non-prescription use of any controlled substance, or the repeated use of alcohol or any other non-controlled substance which in the Administrator's (or its delegate's or delegates') reasonable determination interferes with the Executive's service as an officer or employee of the Company and/or a Subsidiary;

(f) sexual harassment by the Executive that has been reasonably substantiated and investigated;

(g) involvement in activities representing conflicts of interest with the Company and/or a Subsidiary;

(h) improper disclosure of confidential information;

(i) conduct endangering, or likely to endanger, the health or safety of another employee;

(j) falsifying or misrepresenting information on the records of the Company and/or a Subsidiary;

(k) the Executive's physical destruction or theft of substantial property or assets of the Company and/or a Subsidiary;

(l) breach of any policy of, or agreement with, the Company and/or a Subsidiary applicable to the Executive or to which the Executive is otherwise bound.

Review of any determination that a termination is for Cause shall be by the Administrator, in its sole and exclusive judgment and discretion, in accordance with the provisions of Section 8 herein.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation Committee of the Board of Directors of the Company.

"Company" means Western Digital Corporation, a Delaware corporation.

"Effective Date" means February 16, 2006.

"Eligible Employee" means any person classified by the Company or a Subsidiary, in its sole discretion, as a non-temporary, full-time or part-time, salaried or hourly employee (specifically excluding any individual who is not classified by the Company or a Subsidiary as a common law employee, such as an independent contractor or an individual working through a third-party provider, such as Kelly Services, without regard to the characterization or recharacterization of such individual's status by any court or governmental agency), who is paid from the United States payroll of the Company or a Subsidiary; provided, however, that in no event shall any employee who as of the Effective Date is a party to a written employment agreement with the Company or a Subsidiary (other than an agreement providing for at-will employment by the Company or a Subsidiary and for no specified term) be an Eligible Employee.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Executive" means an Eligible Employee who has been designated by the Board or the Committee as a Tier I Executive, Tier II Executive or Tier III Executive for purposes of participation in the Plan.

"Participant" means an Executive who is entitled, based on the provisions hereof, to severance benefits under Section 6.

"Plan" means this Western Digital Corporation Executive Severance Plan, as set forth in this instrument as it may be amended from time to time.

"Separation from Service," with respect to an Executive, shall mean that the Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

"Subsidiary" means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

4. TERM

The Plan shall commence on the Effective Date and shall continue in effect through December 31, 2008; provided, however, that on December 31, 2006 and each anniversary of such date thereafter, the term of the Plan shall extend automatically for one additional year, unless the Committee (or the Board) causes the Company to deliver written notice prior to the end of such term (or extended term, as applicable) to each Executive then covered by the Plan that the term of the Plan will not be extended (or further extended, as the case may be), and if such notice is timely given the Plan shall terminate at the end of the term then in progress.

5. PARTICIPATION

Upon approval of the Plan, the Committee shall designate the Executives initially covered by the Plan. The Committee may, from time to time, designate additional Eligible Employees as Executives for purposes of participation in the Plan; provided that the Committee shall limit the group of all persons eligible to participate in the Plan to a "select group of management or highly compensated employees" within the meaning of 29 C.F.R. 2520-104-23 or any similar successor provision. The Committee may, in its sole discretion, remove an Executive from participation in the Plan and from time to time approve modifications to the Tier to which one or more Executives have been designated.

6. SEVERANCE BENEFITS

6.1 Severance Benefits to Executives. An Executive whose employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary, as applicable, without Cause shall become, subject to the conditions set forth in Section 7, a Participant under the Plan and entitled to the benefits set forth in this Section 6. The severance benefits provided under Sections 6.2, 6.3, 6.5 and 6.6 of the Plan shall be the obligations of, and shall be provided to the Executive by, the entity (the Company or a Subsidiary, as applicable) that employs the Executive immediately prior to the Executive's termination of employment. For avoidance of doubt, in no event shall an Executive become entitled to or receive any payment hereunder if the Executive's employment with the Company or a Subsidiary is terminated voluntarily by the Executive (for any reason), by the Company or a Subsidiary, as applicable, for Cause, or on account of the Executive's death or disability (as defined in Section 22(e)(3) of the Code). Notwithstanding anything else contained herein to the contrary, an Executive shall not be deemed to have terminated employment if his or her employment by the Company or a Subsidiary terminates but he or she continues as an employee of the Company or another Subsidiary.

6.2 Cash Severance Payment. A Participant shall receive a severance payment equal to the Participant's monthly rate of Base Pay multiplied by the number of months set forth below:

(a) Tier I Executive: 24 months

(b) Tier II Executive: 18 months

(c) Tier III Executive: 12 months

Subject to Section 6.7, the severance payment shall be paid in one lump-sum cash payment in the month following the month in which the Participant's Separation from Service occurs.

6.3 Bonus. A Participant shall receive a payment equal to a pro-rata portion of the Participant's bonus opportunity under the Company's (or a Subsidiary's) bonus program in which the Participant participates for the bonus cycle in which the Participant's date of termination occurs (with such pro-rata portion based on the number of days in the applicable bonus cycle during which the Participant was employed (not to exceed six (6) months) and assuming 100% of the performance target(s) subject to the bonus award are met regardless of actual funding by the Company or a Subsidiary). The payment shall be paid in one lump-sum cash payment in the month following the month in which the Participant's Separation from Service occurs.

6.4 Equity Awards. Notwithstanding anything in the applicable stock incentive plan and/or award agreement to the contrary, upon a Participant's termination of employment, the Participant's then outstanding stock options and restricted stock or stock unit awards that are subject to time-based vesting will vest and become exercisable or payable, as applicable, as if the Participant had remained employed with the Company or a Subsidiary for an additional six (6) months. For avoidance of doubt, the foregoing is not intended to apply to any equity awards held by the Participant that are subject to performance-based vesting (which shall continue to be governed by the plan and/or award agreement applicable to such awards) or to supersede any more favorable provision in any stock incentive plan and/or award agreement regarding accelerated vesting in the event of the Participant’s termination of employment. Notwithstanding anything to the contrary herein, the post-termination exercisability of the Participant’s then outstanding stock options shall continue to be governed by the stock incentive plan and stock option agreement applicable to such options.

6.5 Outplacement Services. A Participant shall be eligible for outplacement services, provided by a vendor chosen by the Company or applicable Subsidiary and at the Company’s or applicable Subsidiary’s expense, after the Participant’s termination of employment for up to the number of months set forth below:

(a) Tier I Executive: 12 months

(b) Tier II Executives: 12 months

(c) Tier III Executive: 12 months

6.6 Continued Health Care Coverage. If the Participant elects COBRA continuation coverage within the applicable election period, the Company or applicable Subsidiary shall make the applicable COBRA premium payments following the expiration of the Participant’s company-provided medical, dental, and/or vision coverage existing as of the Participant’s termination date for the number of months set forth below:

(a) Tier I Executive: 18 months

(b) Tier II Executives: 12 months

(c) Tier III Executive: 12 months

Notwithstanding anything in the Plan to the contrary, there shall be no obligation to make such COBRA premium payments on behalf of any Participant if the Participant otherwise becomes eligible for equivalent coverage under another employer’s plan. To the extent that the payment or reimbursement of any benefits pursuant to Section 6.5 or this Section 6.6 is taxable to the Participant, any such payment or reimbursement shall be made to the Participant on or before the last day of the Participant’s taxable year following the taxable year in which the related expense was incurred. The Participant’s right to payment of such benefit is not subject to liquidation or exchange for another benefit and the amount of such benefits that the Participant receives in one taxable year shall not affect the amount of such benefits that the Participant receives in any other taxable year.

6.7 Specified Employees. The provisions of this Section 6.7 shall apply if any severance payments hereunder constitute “deferred compensation” (within the meaning of Section 409A of the Code) payable upon the Participant’s Separation from Service and, in such event, such provisions shall apply only to the extent required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the Code. It is the Company’s intent that severance payments hereunder should not constitute “deferred compensation” payable upon a Separation from Service (because such payments should constitute a “short-term deferral” within the meaning of Code Section 409A or otherwise) based on the guidance available as of the date hereof and, accordingly, should not be subject to the delayed-payment provisions set forth in this Section 6.7. Notwithstanding any other provision of the Plan to the contrary, if the Participant is a “specified employee” within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Participant’s Separation from Service, the Participant shall not be entitled to any severance payments hereunder until the earlier of (i) the date which is six (6) months after the Participant’s Separation from Service for any reason other than death, or (ii) the date of the Participant’s death. Any amounts otherwise payable to the Participant upon or in the six (6) month period following the Participant’s Separation from Service that are not so paid by reason of this Section 6.7 shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Participant’s Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Participant’s death).

7. CONDITIONS TO SEVERANCE BENEFITS

7.1 Release. Notwithstanding anything to the contrary contained herein, the Company’s or applicable Subsidiary’s obligation to pay benefits to a Participant under Section 6 is subject to the condition precedent that the Participant execute a valid and effective release of any and all claims in a form and manner acceptable to the Company, and such release is received by the Company no earlier than, and no later than fourteen (14) days (or such other period as required by law) after, the Participant’s termination date and is not revoked by the Participant (pursuant to any revocation rights afforded by applicable law) or otherwise rendered unenforceable by the Participant. Notwithstanding anything else contained herein to the contrary, the Company or applicable Subsidiary will have no obligation to pay any benefit to the Participant under the Plan unless and until that Participant’s release (in such form) has been fully executed by the Participant (and the Participant’s spouse, to the extent required by the Company), has been received by the Company, and has become effective and irrevocable by the Participant.

7.2 Departure and Entitlement Procedure. As a condition to becoming a Participant and receiving the severance benefits described in Section 6, the Executive must return and deliver to the Administrator or his or her designee all Company and Subsidiary property within seven (7) days of the Executive’s termination date. In addition, except as otherwise provided by the Company, if an Executive resigns prior to his/her scheduled termination date, then he/she shall not be entitled to any severance payments or any other severance benefits provided herein.

7.3 Offsets. Except as expressly provided below, a Participant shall not be required to mitigate the amount of any payments provided for by the Plan by seeking employment or otherwise, nor shall the amount of any cash payments or benefits provided under the Plan be reduced by any compensation or benefits earned by the Participant after his or her termination of employment with the Company or applicable Subsidiary. All severance payments under the Plan shall be subject to legal deductions, and the Company and/or applicable Subsidiary reserves the right to offset the benefits payable under the Plan by any advanced monies the Participant owes the Company or a Subsidiary. The benefits and amounts payable under the Plan shall be reduced (but not below zero) by any severance pay or benefits to which a Participant is or becomes entitled under any other severance pay plan, policy, agreement or arrangement. In addition, in no event shall a Participant become entitled to a duplication of benefits under the Plan and any other severance plan or program of the Company or a Subsidiary. Without limiting the generality of the foregoing, in no event shall a Participant receive benefits under the Plan in connection with his or her termination of employment if such Participant is entitled to benefits under the Company's Amended and Restated Change of Control Severance Plan in connection with such termination of employment. Notwithstanding any provision of the Plan to the contrary, to the extent that any Participant is entitled to any period of paid notice under Federal or state law including, but not limited to, the Worker Adjustment Retraining Notification Act, 29 U.S.C. Sections 2101 et seq., the benefits and amounts payable under the Plan shall be reduced (but not below zero) by the Base Pay received by the Participant during the period of such paid notice.

7.4 Limitation On Employee Rights. The Plan shall not give any employee the right to be retained in the service of the Company or to interfere with or restrict the right of the Company or applicable Subsidiary to discharge any employee at any time, with or without Cause.

8. RESOLUTION OF DISPUTES

8.1 Claim. If a Participant or any other individual (herein referred to as a "Claimant") believes that benefits under the Plan are being wrongfully denied, that the Plan is not being operated properly, that fiduciaries of the Plan have breached their duties, or that the Claimant's legal rights are being violated with respect to the Plan, the Claimant must file a formal claim with the Administrator. Any such claim for benefits must be filed in writing within 90 days of the date upon which the Participant first knew or should have known the facts upon which the claim is based.

8.2 Claim Decision. If any claim for benefits under the Plan is denied, in whole or in part, the Claimant shall be so notified by the Administrator within thirty (30) calendar days of the date such person's claim is delivered to the Administrator. At the same time, the Administrator shall notify the Claimant of his or her right to a review by the Administrator and shall set forth, in a manner calculated to be understood by the Claimant, specific reasons for such decision, specific references to pertinent Plan provisions on which the decision is based, a description of any additional material or information necessary for the Claimant to perfect his or her request for review, an explanation of why such material or information is necessary, and an explanation of the Plan's review procedure.

8.3 Request for Review. Any Claimant or duly authorized representative may appeal from such decision by submitting to the Administrator within sixty (60) calendar days after the date of such notice of its decision a written statement:

(a) requesting a review of the claim for benefits by the Administrator;

(b) setting forth all of the grounds upon which the request for review is based and any facts in support thereof; and

(c) setting forth any issues or comments which the Claimant deems relevant to the claim.

The Administrator shall act upon such appeal within sixty (60) calendar days after the latter of receipt of the Claimant's request for review by it or receipt of all additional materials reasonably requested by it from such Claimant.

8.4 Review of Decision. The Administrator shall make a full and fair review of an appeal and all written materials submitted by the Claimant in connection therewith and may require the Claimant to submit, within ten (10) calendar days of written notice by the Administrator, such additional facts, documents or other evidence as the Administrator, in its sole discretion, deems necessary or advisable in making such a review. On the basis of its review, the Administrator shall make an independent determination of the Claimant's eligibility for an allowance and the amount of such allowance, if any, under this Plan. The decision of the Administrator on any appeal shall be final and conclusive upon all persons if supported by substantial evidence in the record.

8.5 Denial on Review. If on review of a decision, the Administrator denies a claim in whole or in part, it shall give written notice of its decision to the Claimant setting forth, in a manner calculated to be understood by the Claimant, the specific reasons for such denial and specific references to the pertinent Plan provisions on which its decision was based. If a Claimant believes that the Administrator's determination on appeal is incorrect, the Claimant or duly authorized representative may invoke the arbitration procedures described in Section 8.6 or file suit related to such determination; provided that any legal action must be taken by the Claimant within ninety (90) days after the date upon which the Administrator's written decision on review was sent to the Claimant.

8.6 Arbitration. A Claimant who has followed the procedures in Sections 8.1 through 8.5, but who has not obtained full relief on his or her claim for benefits, may, within ninety (90) days following his or her receipt of the Administrator's written decision on review pursuant to Section 8.5, apply in writing to the Administrator for expedited and binding arbitration of his or her claim in Orange County, California, before a sole arbitrator selected from Judicial Arbitration and Mediation Services, Inc., Orange County, 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. Pursuant to California Code of Civil Procedure § 1281.8, provisional injunctive relief may, but need not, be sought by the Company, a Subsidiary or an Executive 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. Any rights to trial by jury in any action, proceeding or counterclaim brought by any of the Company, a Subsidiary or an Executive in connection with any matter whatsoever arising out of or in any way connected with the Plan are hereby waived. The Company or applicable Subsidiary shall be responsible for payment of the forum costs of any arbitration hereunder, including the Arbitrator's fee. In any proceeding to enforce the terms of the Plan, the prevailing party shall be entitled to its or his reasonable attorneys' fees and costs (other than forum costs associated with the arbitration) incurred by it or him in connection with resolution of the dispute in addition to any other relief granted.

8.7 Legal Fees and Expenses. If any dispute arises between the parties with respect to the interpretation or performance of the Plan, the prevailing party in any arbitration or proceeding shall be entitled to recover from the other party its attorneys' fees, arbitration or court costs and other expenses incurred in connection with any such proceeding. Amounts, if any, paid to the Executive under this Section 8.7 shall be in addition to all other amounts due to the Executive pursuant to the Plan.

9. ADMINISTRATION

9.1 Administrator. Except as provided herein, the Plan shall be administered and operated by the Administrator. The Administrator is empowered to construe and interpret the provisions of the Plan and to decide all questions of eligibility for benefits under the Plan and shall make such determinations in its sole and absolute discretion. The Administrator may at any time delegate to any other named person or body, or reassume therefrom, any of its responsibilities or administrative duties with respect to the Plan.

9.2 Experts; Rules. The Administrator may contract with one or more persons to render advice with regard to any responsibility it has under the Plan. Subject to the limitations of the Plan, the Administrator shall from time to time establish such rules for the administration of the Plan as it may deem desirable.

9.3 Indemnity. The Company shall, to the extent permitted by law, by the purchase of insurance or otherwise, indemnify and hold harmless the Administrator and each other fiduciary with respect to the Plan for liabilities or expenses they and each of them incur in carrying out their respective duties under the Plan, other than for any liabilities or expenses arising out of such fiduciary's gross negligence or willful misconduct.

10. AMENDMENT

The Committee (or the Board) reserves the right to amend, suspend and/or terminate the Plan at any time in its sole discretion. No amendment, suspension or termination shall diminish benefits to which a Participant is currently entitled under the Plan. Any modification or other amendment of the Plan shall be in writing, signed by either the Company's Chief Executive Officer or Vice President, Human Resources.

11. TAXES

Each Participant shall be solely responsible for his or her own tax liability with respect to participation in this Plan. The Company may withhold (or cause there to be withheld, as the case may be) from any amounts otherwise due or payable under or pursuant to this Plan such federal, state and local income, employment, or other taxes as may be required to be withheld pursuant to any applicable law or regulation. Notwithstanding anything else contained herein to the contrary, nothing in this Plan is intended to constitute, nor does it constitute, tax advice, and in all cases, each Participant should obtain and rely solely on the tax advice provided by the Participant's own independent tax advisors (and not this Plan, the Company, any of the Company's affiliates, or any officer, employee or agent of the Company or any of its affiliates)..

12. GENERAL

12.1 Assignment by Participants. None of the benefits, payments, proceeds or claims of any Executive or Participant shall be subject to any claim of any creditor and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor, nor shall any such Executive have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds that he or she may expect to receive, contingently or otherwise, under the Plan. Notwithstanding the foregoing, benefits that are in pay status may be subject to a court order of garnishment or wage assignment, or similar order, or a tax levy. The Plan shall inure to the benefit of and be enforceable by each Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If a Participant dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid to the Participant's beneficiary in accordance with the terms of the Plan.

12.2 Binding Effect. The Company or applicable Subsidiary will require any successor (whether by purchase of assets, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or applicable Subsidiary to expressly assume and agree to perform all of the obligations of the Company or applicable Subsidiary under the Plan (including the obligation to cause any subsequent successor to also assume the obligations of the Plan) unless such assumption occurs by operation of law. For avoidance of doubt, in the event that a successor of a Subsidiary (whether by purchase of assets, merger, consolidation or otherwise) assumes the Subsidiary's obligations under the Plan, the Company will have no obligations under the Plan with respect to the Executives employed by such Subsidiary.

12.3 No Waiver. No waiver of any term, provision or condition of the Plan, whether by conduct or otherwise, in any one or more instances shall be deemed or be construed as a further or continuing waiver of any such term, provision or condition or as a waiver of any other term, provision or condition of the Plan.

12.4 Expenses; Unsecured General Creditor. The benefits and costs of the Plan shall be paid by the Company and/or a Subsidiary out of its general assets. The status of a claim against the Company or a Subsidiary with respect to the benefits provided hereunder shall be same as the status of a claim against the Company or applicable Subsidiary by any general or unsecured creditor.

12.5 ERISA. The Plan is an unfunded compensation arrangement for a select group of management or highly compensated employees of the Company or a Subsidiary and any exemptions under ERISA applicable to such an arrangement shall be applicable to the Plan.

12.6 Section 409A. The Plan is intended to comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject any Participant to payment of any interest or additional tax imposed under Code Section 409A. The provisions of the Plan shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Participant.

12.7 WARN Act. Benefits payable under the Plan are intended to satisfy, where applicable, any Company obligations under the Federal Worker Adjustment and Retraining Notification Act and any similar obligations that the Company or its Subsidiaries may have under any successor or other severance pay statute.

12.8 Construction. The masculine pronoun shall include the feminine pronoun and the feminine pronoun shall include the masculine pronoun and the singular pronoun shall include the plural pronoun and the plural pronoun shall include the singular pronoun, unless the context clearly indicates otherwise.

12.9 Governing Law. The Plan shall be construed according to the laws of the State of California, except to the extent such laws are preempted by federal law.

12.10 Severability. If any provision of the Plan is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under the Plan will not be materially and adversely affected hereby, (i) such provision will be fully severable, (ii) the Plan will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of the Plan will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of the Plan a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

12.11 Notices. Any notice required or permitted by the Plan shall be in writing, delivered by hand, or sent by registered or certified mail, return receipt requested, or by recognized courier service (regularly providing proof of delivery), addressed as follows:

(a) if to the Company or, where applicable, the Administrator:

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

Attention: Vice President, Human Resources

With a copy to:

Western Digital Corporation
20511 Lake Forest Drive
Lake Forest, California 92630
Attention: General Counsel

(b) if to the Executive or Participant, at the address set forth on the records of the Company or applicable Subsidiary, as the case may be, or to such other address or addresses most recently communicated to the Company or applicable Subsidiary by the Executive or Participant.

Each such notice shall be effective (i) if given by mail, three days after being deposited in the mails or (ii) if given personally or by other means when actually delivered at such address.

IN WITNESS WHEREOF, this instrument, evidencing the terms of the Western Digital Corporation Executive Severance Plan, is executed as of November 6, 2008.

WESTERN DIGITAL CORPORATION

By: /s/ Jackie DeMaria
Jackie DeMaria
Vice President, Human Resources

Exhibit 31.1

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 15d-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: January 29, 2009

/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 15d-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: January 29, 2009

/s/ Timothy M. Leyden

Timothy M. Leyden

Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

Certification of Chief Executive Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 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: January 29, 2009

/s/ John F. Coyne

John F. Coyne

President and Chief Executive Officer

Exhibit 32.2

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

Certification of Chief Financial Officer

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the period ended December 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: January 29, 2009

/s/ Timothy M. Leyden

Timothy M. Leyden

Executive Vice President and Chief Financial Officer