WESTERN DIGITAL CORP
Form DEF 14A
September 24, 2007

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SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to § 240.14a-12

WESTERN DIGITAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ Fee not required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Dear Stockholder:

We cordially invite you to attend our Annual Meeting of Stockholders to be held at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626 on Tuesday, November 6, 2007 at 10:00 a.m., local time. Our Board of Directors and management look forward to welcoming you there.

We are holding the Annual Meeting for the following purposes:

1. To elect ten directors to serve until our next annual meeting of stockholders and until their successors are duly elected and qualified;

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 27, 2008; and

3. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment of the meeting.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ELECTION OF EACH OF THE TEN DIRECTOR NOMINEES NAMED IN PROPOSAL 1 AND FOR PROPOSAL 2 TO RATIFY THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Whether or not you are able to attend the meeting, it is important that your shares be represented, no matter how many shares you own. This year you may vote over the Internet, by telephone or by mailing a proxy or voting instruction card. We urge you to promptly mark, sign, date and mail your proxy or voting instruction card in the return envelope provided or provide voting instructions electronically via the Internet or by telephone.

On behalf of the Board of Directors, thank you for your continued support.

Thomas E. Pardun	John F. Coyne
Chairman of the Board	*President and Chief Executive Officer*

September 24, 2007

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20511 Lake Forest Drive
Lake Forest, California 92630-7741

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On November 6, 2007

To the Stockholders of
WESTERN DIGITAL CORPORATION:

Our 2007 Annual Meeting of Stockholders will be held at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626 on Tuesday, November 6, 2007 at 10:00 a.m., local time, for the following purposes:

1. To elect ten directors to serve until our next annual meeting of stockholders and until their successors are duly elected and qualified;

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 27, 2008; and

3. To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment of the meeting.

Any action on the items described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting is properly adjourned or postponed.

Only stockholders of record at the close of business on September 21, 2007 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements of the meeting.

By Order of the Board of Directors

Raymond M. Bukaty
Senior Vice President, Administration,
General Counsel and Secretary

Lake Forest, California
September 24, 2007

ALL OF OUR STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE URGED TO VOTE YOUR SHARES BY COMPLETING, SIGNING, DATING AND RETURNING THE ACCOMPANYING PROXY CARD OR VOTING INSTRUCTION CARD IN THE PRE-ADDRESSED RETURN ENVELOPE PROVIDED OR BY TRANSMITTING YOUR VOTING INSTRUCTIONS ELECTRONICALLY VIA THE INTERNET OR BY TELEPHONE. PLEASE SEE THE ACCOMPANYING INSTRUCTIONS FOR MORE DETAILS ON VOTING. RETURNING YOUR PROXY CARD OR VOTING INSTRUCTION CARD PROMPTLY WILL ASSIST US IN REDUCING THE EXPENSES OF ADDITIONAL PROXY

SOLICITATION. SUBMITTING YOUR PROXY CARD OR VOTING INSTRUCTION CARD DOES NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IF YOU ATTEND THE ANNUAL MEETING (AND, IF YOU ARE NOT A STOCKHOLDER OF RECORD, YOU HAVE OBTAINED A LEGAL PROXY FROM THE BROKER, TRUSTEE OR OTHER NOMINEE THAT HOLDS YOUR SHARES GIVING YOU THE RIGHT TO VOTE THE SHARES IN PERSON AT THE ANNUAL MEETING).

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20511 Lake Forest Drive
Lake Forest, California 92630-7741

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
November 6, 2007

Our Board of Directors solicits your proxy for the 2007 Annual Meeting of Stockholders to be held at 10:00 a.m., local time, on November 6, 2007 at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626, and at any and all adjournments or postponements of the Annual Meeting, for the purposes set forth in the Notice of Annual Meeting of Stockholders. We are first mailing this Proxy Statement and the accompanying form of proxy to our stockholders on or about October 1, 2007.

VOTING

Record Date and Quorum

Only stockholders of record at the close of business on September 21, 2007 will be entitled to notice of and to vote at the Annual Meeting. On the record date, 219,883,163 shares of our common stock were outstanding.

The holders of a majority of our shares of common stock outstanding on the record date and entitled to vote at the Annual Meeting, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting and any adjournments or postponements thereof. If you submit a properly executed proxy or voting instruction card, even if you abstain from voting, your shares will be counted for purposes of determining the presence or absence of a quorum. If a broker, trustee or other nominee indicates on a proxy that it lacks discretionary authority to vote your shares on a particular matter, commonly referred to as broker non-votes, those shares will still be counted for purposes of determining the presence of a quorum at the Annual Meeting.

Submitting Your Proxy

Most stockholders hold their shares through a broker, trustee or other nominee rather than directly in their own name. However, if you hold shares directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered the stockholder of record with respect to those shares and we are sending these proxy materials directly to you. As a stockholder of record, you have the right to grant your voting proxy directly to the named proxy holder or to vote in person at the Annual Meeting. We have enclosed a proxy card for you to use.

If your shares are held in a brokerage account or by a trustee or other nominee, you are considered the beneficial owner of these shares held in street name, and your broker, trustee or nominee is forwarding these proxy materials to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee on how to vote and are also entitled to attend the Annual Meeting; however, you may not vote these shares in person at the Annual Meeting unless you obtain from the broker, trustee or nominee that holds your shares a legal proxy giving you the right to vote the shares in person at the Annual Meeting.

If you participate in the Western Digital Stock Fund through our Western Digital Corporation 401(k) Plan, your proxy will serve as a voting instruction for T. Rowe Price Trust Company, the plan s trustee. If T. Rowe Price does not receive voting instructions for shares in your plan account, your shares will not be voted unless you attend the Annual Meeting and vote in person.

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If you hold shares as a stockholder of record, your vote by proxy must be received before the polls close at the Annual Meeting. However, if you choose to submit your proxy by telephone or the Internet as described on page 55 below, your proxy must be submitted by 11:59 p.m. Eastern time on November 5, 2007. If you hold shares in the Western Digital Corporation 401(k) Plan, your voting instructions must be received by 11:59 p.m. Eastern time on November 5, 2007 for the trustee to vote your shares. Finally, if you hold shares beneficially in street name with a broker, trustee or nominee, please follow the voting instructions provided by your broker, trustee or nominee.

If you complete and submit your proxy or voting instruction card, the persons named as proxies will vote the shares represented by your proxy or voting instruction card in accordance with your instructions. If you submit a proxy or voting instruction card but do not complete the voting instructions on the proxy or voting instruction card, the persons named as proxies will vote the shares represented by your proxy FOR election of each of the ten director nominees named in Proposal 1 and FOR ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 27, 2008 as described in Proposal 2.

Revoking Your Proxy and Deadline for Voting

You have the power to revoke your proxy or voting instructions at any time before it is voted at the Annual Meeting, except that any change to your voting instructions for the Western Digital Corporation 401(k) Plan must be provided by 11:59 p.m. Eastern time on November 5, 2007. If you are a stockholder of record, you may revoke your proxy by submitting a written notice of revocation to our Secretary, by submitting a duly executed written proxy bearing a later date to change your vote, or by providing new voting instructions electronically via the Internet or by telephone. A proxy will not be voted if the stockholder of record who executed it is present at the Annual Meeting and votes the shares represented by the proxy in person at the Annual Meeting. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person. Please note that attendance at the Annual Meeting will not by itself constitute revocation of a proxy.

Votes Required to Adopt Proposals

Each share of our common stock outstanding on the record date is entitled to one vote on each of the ten director nominees and one vote on each other matter that may be presented for consideration and action by the stockholders at the Annual Meeting.

For purposes of Proposal 1, director nominees receiving the majority of votes cast (that is, the number of shares voted for the director exceeds the number of votes cast against that director) will be elected as a director, provided that if the number of nominees exceeds the number of directors to be elected, the directors will be elected by a plurality of the shares present in person or by proxy at the meeting and entitled to vote on the election of directors. Proposal 2 to ratify the appointment of our independent registered public accounting firm for fiscal 2008 requires the affirmative approval of a majority of the shares present in person or represented by proxy and entitled to vote on the proposal.

For the election of directors, shares not present or represented at the meeting and shares voting abstain will be entirely excluded from the vote and will have no effect on the outcome. For Proposal 2 to ratify the appointment of our independent registered public accounting firm for fiscal 2008, we treat abstentions as shares present or represented and entitled to vote on that proposal, so abstaining has the same effect as a negative vote. Broker non-votes (shares held by brokers, trustees or other nominees who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers) on a proposal are not deemed to be entitled to vote on the proposal and, therefore, will not be counted in determining the outcome of the vote on that proposal. Please note that all proposals discussed in this Proxy Statement are considered routine and that brokers, trustees or nominees who have not received voting instructions from their customers may vote their customers shares on the election of directors in Proposal 1 and on the ratification of KPMG LLP as our independent registered public accounting firm in Proposal 2.

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SECURITY OWNERSHIP BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock, as of September 21, 2007, by (1) each person known by us to own beneficially more than 5% of our outstanding common stock, (2) each director and each nominee for election as a member of our Board of Directors, (3) each of the executive officers named in the Summary Compensation Table on page 29, and (4) all current directors and executive officers as a group. This table is based on information supplied to us by our executive officers, directors and principal stockholders or included in a Schedule 13G filed with the Securities and Exchange Commission.

Beneficial Owner	**Amount and Nature of Beneficial Ownership(1)**	**Percent of Class(2)**
Greater than 5% Stockholders:		
Barclays Global Investors, NA., and certain affiliates 45 Fremont Street, San Francisco, CA 94105(3)	22,730,882	10.3%
LSV Asset Management 1 N. Wacker Drive, Suite 4000, Chicago, IL 60606(4)	11,295,428	5.14%
Directors:		
Peter D. Behrendt(5)(6)	84,270	*
Kathleen A. Cote(5)	33,750	*
Henry T. DeNero(5)	57,291	*
William L. Kimsey(5)	39,687	*
Michael D. Lambert(5)	65,250	*
Roger H. Moore(5)	53,750	*
Thomas E. Pardun(5)(7)	63,750	*
Named Executive Officers:		
John F. Coyne(8)(9)	557,777	*
Arif Shakeel(8)	404,240	*
Matthew E. Massengill(8)(9)	721,801	*
Stephen D. Milligan	4,470	*
Timothy M. Leyden		
Raymond M. Bukaty(9)	186,721	*
Hossein M. Moghadam(9)	160,456	*
All Directors and Executive Officers as a group (14 persons)(10)	2,433,213	1.1%

* Represents less than 1% of the outstanding shares of our common stock.

(1) We determine beneficial ownership in accordance with the rules of the Securities and Exchange Commission. We deem shares subject to options that are currently exercisable or exercisable within 60 days after September 21, 2007 outstanding for purposes of computing the share amount and the percentage ownership of the person holding such stock options, but we do not deem them outstanding for purposes of computing the percentage ownership of any other person.

(2)

Except as otherwise noted below, we determine applicable percentage ownership on 219,883,163 shares of our common stock outstanding as of September 21, 2007.

(3) Beneficial and percentage ownership information is based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on January 23, 2007 by Barclays Global Investors, NA., and certain affiliates.

(4) Beneficial and percentage ownership information is based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on February 13, 2006 by LSV Asset Management.

(5) Includes shares of our common stock that may be acquired within 60 days after September 21, 2007 through the exercise of stock options as follows: Mr. Behrendt (58,750), Ms. Cote (33,750), Mr. DeNero (53,750),

Mr. Kimsey (39,687), Mr. Lambert (58,750), Mr. Moore (53,750), and Mr. Pardun (58,750). Does not include shares representing deferred stock units credited to accounts in our Deferred Compensation Plan as of September 21, 2007, as to which participants currently have no voting or investment power, as follows: Mr. Behrendt (2,120), Ms. Cote (31,309), Mr. DeNero (45,487), Mr. Kimsey (4,828), Mr. Moore (57,567), and Mr. Pardun (19,851).

(6) Includes 750 shares of our common stock held by Mr. Behrendt s children.

(7) Includes 5,000 shares of our common stock held in a family trust.

(8) Messrs. Coyne, Shakeel and Massengill are also members of our Board of Directors.

(9) Includes shares of our common stock that may be acquired within 60 days after September 21, 2007 through the exercise of stock options as follows: Mr. Coyne (263,229), Mr. Massengill (572,150), Mr. Bukaty (113,313), and Dr. Moghadam (78,883).

(10) Includes 1,384,762 shares of our common stock that may be acquired within 60 days after September 21, 2007 through the exercise of stock options by our directors and each of our executive officers. Does not include 161,162 shares of our common stock representing deferred stock units as described in footnote 5 above.

PROPOSAL 1

ELECTION OF DIRECTORS

Our directors each serve a one-year term and are subject to re-election at each annual meeting of stockholders. Upon the recommendation of the Governance Committee, our Board of Directors has nominated all ten of the current directors for re-election to the Board of Directors to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Currently, the authorized number of directors on our Board of Directors is ten.

Nominees for Election

Our nominees for election to our Board of Directors at the Annual Meeting include seven independent directors, as defined by the applicable listing standards of the New York Stock Exchange, and one current and two former members of our senior management. Each of the nominees is currently a member of our Board of Directors and has consented to serve as a director if elected. If you sign your proxy or voting instruction card but do not give instructions with respect to the voting of directors, your shares will be voted FOR each of the ten nominees recommended by our Board of Directors. If you wish to give specific instructions with respect to the election of directors, you may do so by indicating your instructions on your proxy or voting instruction card. In the event that, before the Annual Meeting, any of the nominees for director should become unable to serve if elected, the persons named as proxies may vote for a substitute nominee designated by our existing Board of Directors to fill the vacancy or for the balance of the nominees, leaving a vacancy, unless our Board of Directors chooses to reduce the number of directors serving on the Board of Directors. Our Board of Directors has no reason to believe that any of the following nominees will be unwilling or unable to serve if elected as a director.

The following biographical information for each of the ten nominees has been furnished by the nominee:

Peter D. Behrendt, 68, has been a director since 1994. He was Chairman of Exabyte Corporation, a manufacturer of computer tape storage products, from January 1992 until he retired in January 1998 and was President and Chief Executive Officer of Exabyte Corporation from July 1990 to January 1997. Mr. Behrendt is currently a venture partner with NEA, a California-based venture fund. He is also a director of Infocus Corporation.

Kathleen A. Cote, 58, has been a director since January 2001. She was the Chief Executive Officer of Worldport Communications, Inc., a European provider of Internet managed services, from May 2001 to June 2003. From September 1998 until May 2001, she served as President of Seagrass Partners, a provider of expertise in business planning and strategic development for early stage companies. From November 1996 until January 1998, she served as President and Chief Executive Officer of Computervision Corporation, an international supplier of product development and data management software. She is also a director of Forgent Networks, Inc.

John F. Coyne, 57, has been a director since October 2006. He joined us in 1983 and has served in various executive capacities. From November 2002 until June 2005, Mr. Coyne served as Senior Vice President, Worldwide Operations, from June 2005 until November 2005, he served as Executive Vice President, Worldwide Operations, and from November 2005 until June 2006, he served as Executive Vice President and Chief Operations Officer. Effective June 2006, he was named President and Chief Operating Officer. In January 2007, he became President and Chief Executive Officer.

Henry T. DeNero, 61, has been a director since June 2000. He was Chairman and Chief Executive Officer of Homespace, Inc., a provider of Internet real estate and home services, from January 1999 until it was acquired by LendingTree, Inc. in August 2000. From July 1995 to January 1999, he was Executive Vice President and Group

Executive, Commercial Payments for First Data Corporation, a provider of information and transaction processing services. Prior to 1995, he was Vice Chairman and Chief Financial Officer of Dayton Hudson Corporation, a general merchandise retailer, and was previously a Director of McKinsey & Company, a management consulting firm. He is also a director of THQ, Inc. and Vignette Corp.

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William L. Kimsey, 65, has been a director since March 2003. He is a veteran of 32 years service with Ernst & Young, a global independent auditing firm, and became that firm s Global Chief Executive Officer. Mr. Kimsey served at Ernst & Young as director of management consulting in St. Louis, office managing partner in Kansas City, Vice Chairman and Southwest Region managing partner in Dallas, Vice Chairman and West Region managing partner in Los Angeles, Deputy Chairman and Chief Operating Officer and, from 1998 to 2002, Chief Executive Officer and a global board member. He is also a director of Accenture Ltd., NAVTEQ Corporation and Royal Caribbean Cruises Ltd.

Michael D. Lambert, 60, has been a director since August 2002. From 1996 until he retired in May 2002, he served as Senior Vice President for Dell Inc. s Enterprise Systems Group. During that period, he also participated as a member of a six-man operating committee at Dell, which reported to the Office of the Chairman. Mr. Lambert served as Vice President, Sales and Marketing for Compaq Computer Corporation from 1993 to 1996. Prior to that, for four years, he ran the Large Computer Products division at NCR/AT&T Corporation as Vice President and General Manager. Mr. Lambert began his career with NCR Corporation, where he served for 16 years in product management, sales and software engineering capacities. He is also a director of Vignette Corp.

Matthew E. Massengill, age 46, has been a director since January 2000. He joined us in 1985 and served in various executive capacities with us until January 2007. From October 1999 until January 2000, he served as Chief Operating Officer, from January 2000 until January 2002, he served as President, and from January 2000 until October 2005, he served as Chief Executive Officer. Mr. Massengill served as Chairman of the Board of Directors from November 2001 until March 2007. He is also a director of ViewSonic Corporation and Microsemi Corporation.

Roger H. Moore, 65, has been a director since June 2000. He served as President and Chief Executive Officer of Illuminet Holdings, Inc., a provider of network, database and billing services to the communications industry, from January 1996 until it was acquired by Verisign, Inc. in December 2001, and he retired at that time. He was a member of Illuminet s Board of Directors from July 1998 until December 2001. From September 1998 to October 1998, he served as President, Chief Executive Officer and as a director of VINA Technologies, Inc., a telecommunications equipment company. From November 1994 to December 1995, he served as Vice President of major accounts of Northern Telecom. In June 2007, Mr. Moore became the interim President and Chief Executive Officer of Arbinet-thexchange, Inc. He is also a director of Arbinet-thexchange, Inc., Consolidated Communications Holdings, Inc. and Verisign, Inc.

Thomas E. Pardun, 63, has been a director since 1993 and Chairman of the Board of Directors since April 2007. He served as Chairman of the Board of Directors from January 2000 until November 2001 and as Chairman of the Board and Chief Executive Officer of Edge2net, Inc., a provider of voice, data and video services, from November 2000 until September 2001. Mr. Pardun was President of MediaOne International Asia Pacific (previously U.S. West International, Asia-Pacific, a subsidiary of U.S. West, Inc.), an owner/operator of international properties in cable television, telephone services, and wireless communications companies, from May 1996 until his retirement in July 2000. Before joining U.S. West, Mr. Pardun was President of the Central Group for Sprint, as well as President of Sprint s West Division and Senior Vice President of Business Development for United Telecom, a predecessor company to Sprint. Mr. Pardun also held a variety of management positions during a 19-year tenure with IBM, concluding as Director of product-line evaluation. He is also a director of CalAmp Corporation and Occam Networks, Inc.

Arif Shakeel, 52, has been a director since September 2004. He joined us in 1985 and has served in various executive capacities. From February 2000 until April 2001, he served as Executive Vice President and General Manager of Hard Disk Drive Solutions, from April 2001 until January 2003, he served as Executive Vice President and Chief Operating Officer, and from January 2002 until June 2006, he served as President. He served as Chief Executive Officer from October 2005 until January 2007. He served as Special Advisor to the Chief Executive Officer from January 2007 until June 2007.

Vote Required and Recommendation of the Board of Directors

In May 2006, our Board of Directors approved an amendment to our Bylaws to require each director to be elected by a majority of the votes cast with respect to such director in uncontested elections (in other words, the number of shares voted for a director must exceed the number of votes cast against that director). In a contested election where the number of nominees exceeds the number of directors to be elected, a plurality voting standard will apply and the nominees receiving the greatest number of votes at the Annual Meeting up to the number of ten authorized directors will be elected. In the case of an uncontested election, if a nominee who is serving as a director is not elected at the Annual Meeting by the requisite majority of votes cast, under Delaware law, the director would continue to serve on the Board of Directors as a holdover director. However, under our Bylaws, any incumbent director who fails to be elected must offer to tender his or her resignation to our Board of Directors. If the director conditions his or her resignation on acceptance by our Board of Directors, the Governance Committee will then make a recommendation to our Board of Directors on whether to accept or reject the resignation or whether other action should be taken. Our Board of Directors will act on the Governance Committee s recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. The director who tenders his or her resignation will not participate in the Board s decision. A nominee who was not already serving as a director and is not elected at the Annual Meeting by a majority of the votes cast with respect to such director s election will not be elected to our Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR ELECTION TO THE BOARD OF DIRECTORS OF EACH OF THE ABOVE NOMINEES FOR DIRECTOR.

Corporate Governance

Corporate Governance Guidelines and Code of Business Ethics

Our Board of Directors has adopted Corporate Governance Guidelines, which provide the framework for the governance of our company and represent the Board s current views with respect to selected corporate governance issues considered to be of significance to stockholders. Our Board of Directors has also adopted a Code of Business Ethics that applies to all of our directors, employees and officers, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Controller. The current versions of the Corporate Governance Guidelines and the Code of Business Ethics are available on our website under the Governance section at www.westerndigital.com and are available in print to any stockholder who delivers a written request to our Secretary at our principal executive offices. In accordance with rules adopted by the Securities and Exchange Commission and the New York Stock Exchange, we intend to promptly disclose future amendments to certain provisions of the Code of Business Ethics, or waivers of such provisions granted to executive officers and directors, on our website under the Governance section at www.westerndigital.com.

Director Independence

Our Board of Directors has reviewed and discussed information provided by the directors and our company with regard to each director s business and personal activities as they may relate to Western Digital or its management. Based on its review of this information and all other relevant facts and circumstances, our Board of Directors has affirmatively determined that, except for serving as a member of our Board of Directors, none of Messrs. Behrendt, DeNero, Kimsey, Lambert, Moore and Pardun or Ms. Cote has any relationship, material or immaterial, with Western Digital, either directly or as a partner, shareholder or officer of an organization that has a relationship with Western Digital, and that each of such directors qualifies as independent as defined by the listing standards of the New York Stock Exchange. Mr. Coyne is a current full-time, executive-level employee of Western Digital, and Mr. Shakeel and Mr. Massengill were full-time, executive-level employees of Western Digital during at least a portion of fiscal 2007;

therefore, Messrs. Coyne, Shakeel and Massengill are not independent as defined by the corporate governance listing standards of the New York Stock Exchange.

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Committees

Our Board of Directors has standing Executive, Audit, Compensation and Governance Committees. The Governance Committee, among other things, performs functions similar to a nominating committee. Our Board of Directors usually determines the membership of these committees at its organizational meeting held immediately after the annual meeting of stockholders. The following table identifies the current members of the committees:

Director	Executive	Audit	Compensation	Governance
Peter D. Behrendt				
Kathleen A. Cote		ü		ü
John F. Coyne	Chair			
Henry T. DeNero	ü	Chair		
William L. Kimsey		ü		
Michael D. Lambert			Chair	
Matthew E. Massengill				
Roger H. Moore			ü	ü
Thomas E. Pardun(1)	ü		ü	Chair
Arif Shakeel				

(1) Mr. Pardun is our current Chairman of the Board. Mr. Pardun is an independent director under the listing standards of the New York Stock Exchange and presides at all executive sessions of our non-management, independent directors.

Executive Committee. The Executive Committee operates pursuant to a written charter that is available on our website under the Governance section at www.westerndigital.com. As described in further detail in the written charter of the Executive Committee, between meetings of our Board of Directors, the Executive Committee may exercise all of the powers of our Board of Directors (except those powers expressly reserved to the Board of Directors or to another committee by applicable law or the rules and regulations of the Securities and Exchange Commission or the New York Stock Exchange) in the management and direction of the business and conduct of the affairs of the company, subject to any specific directions given by the Board of Directors.

Audit Committee. Our Board of Directors has determined that all members of the Audit Committee are independent as defined under the listing standards of the New York Stock Exchange and applicable rules of the Securities and Exchange Commission and that each of Mr. DeNero, Ms. Cote and Mr. Kimsey are audit committee financial experts as defined by rules of the Securities and Exchange Commission. The Board of Directors has also determined that Mr. Kimsey s simultaneous service on three other public company audit committees will not impair his ability to effectively serve on our Audit Committee.

The Audit Committee operates pursuant to a written charter that is available on our website under the Governance section at www.westerndigital.com and is also available in print to any stockholder who delivers a written request to our Secretary at our principal executive offices. As described in further detail in the written charter of the Audit Committee, the key responsibilities of the Audit Committee include: (1) sole responsibility for the appointment, compensation, retention and oversight of our independent accountants and, where appropriate, the termination or replacement of the independent accountants; (2) an annual evaluation of the independent accountants qualifications, performance and independence, including a review and evaluation of the lead partner; (3) pre-approval of all auditing services and permissible non-auditing services to be performed by the independent accountants; (4) receipt and review of the reports from the independent accountants required annually and prior to the filing of any audit report by the independent accountants; (5) review and discussion with the independent accountants of any difficulties they encounter in the course of their audit work; (6) establishment of policies for the hiring of any current or former employee of the independent accountants; (7) review and discussion with management and the independent accountants of our annual and quarterly financial statements prior to their filing or public distribution; (8) general review and discussion with management of the presentation and information to be disclosed in our earnings press releases; (9) periodic review of the adequacy of our accounting and financial personnel resources; (10) periodic review and discussion of our internal control over financial reporting and review and discussion with our principal internal auditor of the scope and results of our internal audit

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program; (11) review and discussion of our policies with respect to risk assessment and risk management; (12) preparation of the audit committee report included in this Proxy Statement; (13) establishment of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission of such complaints by company employees; (14) review of material pending legal proceedings involving us and other material contingent liabilities; and (15) review of any other matters relative to the audit of our accounts and preparation of our financial statements that the Audit Committee deems appropriate.

Compensation Committee. Our Board of Directors has determined that all members of the Compensation Committee are independent as defined under the listing standards of the New York Stock Exchange. The Compensation Committee operates pursuant to a written charter that is available on our website under the Governance section at www.westerndigital.com and is also available in print to any stockholder who delivers a written request to our Secretary at our principal executive offices. As described in further detail in the written charter of the Compensation Committee, the Compensation Committee assists our Board of Directors and our management in defining our executive compensation policy and in carrying out various responsibilities relating to the compensation of our executive officers and directors, including: (1) evaluating and approving compensation for the Chief Executive Officer and for all other executive officers; (2) reviewing and making recommendations to the Board of Directors regarding non-employee director compensation; (3) overseeing the development and administration of our incentive and equity-based compensation plans, including the Incentive Compensation Plan, the 2004 Performance Incentive Plan, the Deferred Compensation Plan and the 2005 Employee Stock Purchase Plan; and (4) reviewing and making recommendations to the Board of Directors regarding changes to our benefit plans. The Compensation Committee is also responsible for reviewing and discussing with our management the Compensation Discussion & Analysis, or CD&A, included in this Proxy Statement, for determining whether to recommend to our Board of Directors that the CD&A be included in this Prosy Statement, and for preparing the Report of the Compensation Committee that sets forth the Compensation Committee s determination regarding the CD&A.

The Compensation Committee is solely responsible for making the final decision regarding compensation to our executive officers. In making its decision, however, the Compensation Committee will consider recommendations from our Chief Executive Officer regarding compensation of our other executive officers. The Compensation Committee may also confer with other members of our Board of Directors in determining the compensation of our Chief Executive Officer and our other executive officers. The Compensation Committee retains the power to delegate any of its responsibilities to a subcommittee but the subcommittee must be comprised only of one or more members of the Compensation Committee. The Compensation Committee has no current intention to delegate any of its authority to a subcommittee.

In addition, in accordance with its written charter, the Compensation Committee has the authority to retain and terminate compensation consultants to assist it in evaluating compensation to our directors or executive officers. For fiscal 2007, the Compensation Committee retained Mercer Human Resources Consulting to provide information, analyses, and objective advice regarding executive and director compensation matters. Mercer routinely advises the Compensation Committee with respect to trends in executive compensation, determination of pay programs, assessment of competitive pay levels and mix, and setting compensation levels for executive officers. Our Human Resources Department supports the Compensation Committee in its duties and may be given authority to work with Mercer to compile information for the Compensation Committee or to fulfill certain other administrative duties regarding our compensation programs.

Additional information concerning the compensation policies and objectives established by the Compensation Committee is included below under Executive Compensation Compensation Discussion and Analysis.

Governance Committee. Our Board of Directors has determined that all members of the Governance Committee are independent as defined under the listing standards of the New York Stock Exchange. The Governance Committee, which (among other things) performs functions similar to a nominating committee, operates pursuant to a written charter that is available on our website under the Governance section at www.westerndigital.com and is also available in print to any stockholder who delivers a written request to our Secretary at our principal executive offices. As described in further detail in the written charter of the Governance Committee, the key responsibilities of the Governance Committee include: (1) evaluating and recommending to the Board of Directors the size and composition of the Board of Directors and the size, composition and functions of the

Board of Directors committees; (2) developing and recommending to the Board of Directors a set of criteria for membership; (3) identifying, evaluating, attracting, and recommending director candidates for membership on the Board of Directors, including directors for election at the annual meeting of stockholders; (4) making recommendations to the Board of Directors on such matters as the retirement age, tenure and resignation of directors; (5) managing the Board of Directors performance review process and reviewing the results with the Board of Directors on an annual basis; (6) overseeing the evaluation of the Chief Executive Officer by the Compensation Committee; (7) developing and recommending to the Board of Directors a set of corporate governance principles; and (8) reviewing and making recommendations to the Board of Directors regarding proposals of stockholders that relate to corporate governance.

Whenever a vacancy occurs on our Board of Directors, the Governance Committee is responsible for identifying and attracting one or more candidates to fill that vacancy, evaluating each candidate and recommending a candidate for selection by the full Board of Directors. In addition, the Governance Committee is responsible for recommending nominees for election or re-election to the Board of Directors at each annual meeting of stockholders. The Governance Committee is authorized to use any methods it deems appropriate for identifying candidates for Board of Directors membership, including considering recommendations from stockholders. The Governance Committee is authorized to engage outside search firms to identify suitable candidates, but did not engage any third party for this purpose during fiscal 2007.

While the Governance Committee has no specific minimum qualifications in evaluating a director candidate, the Governance Committee has adopted a policy regarding critical factors to be considered in selecting director nominees which include: the nominee s personal and professional ethics, integrity and values; the nominee s intelligence, judgment, foresight, skills, experience (including understanding of marketing, finance, our technology and other elements relevant to the success of a company such as ours) and achievements, all of which the Governance Committee views in the context of the overall composition of the Board of Directors; the absence of any conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the nominee serving as a director; having a majority of independent directors on the Board of Directors; and representation of the long-term interests of the stockholders as a whole and a diversity of backgrounds and expertise which are most needed and beneficial to the Board of Directors and to Western Digital.

A stockholder may recommend a director candidate to the Governance Committee by delivering a written notice to our Secretary at our principal executive offices and including the following in the notice: (1) the name and address of the stockholder as they appear on our books or other proof of share ownership; (2) the class and number of shares of our common stock beneficially owned by the stockholder as of the date the stockholder gives written notice; (3) a description of all arrangements or understandings between the stockholder and the director candidate and any other person(s) pursuant to which the recommendation or nomination is to be made by the stockholder; (4) the name, age, business address and residence address of the director candidate and a description of the director candidate s business experience for at least the previous five years; (5) the principal occupation or employment of the director candidate; (6) the class and number of shares of our common stock beneficially owned by the director candidate; (7) the consent of the director candidate to serve as a member of our Board of Directors if elected; and (8) any other information required to be disclosed with respect to such director candidate in solicitations for proxies for the election of directors pursuant to applicable rules of the Securities and Exchange Commission. The Governance Committee may require additional information as it deems reasonably required to determine the eligibility of the director candidate to serve as a member of our Board of Directors.

The Governance Committee will evaluate director candidates recommended by stockholders for election to our Board of Directors in the same manner and using the same criteria as used for any other director candidate. If the Governance Committee determines that a stockholder-recommended candidate is suitable for membership on the Board of Directors, it will include the candidate in the pool of candidates to be considered for nomination upon the occurrence of the next vacancy on the Board of Directors or in connection with the next annual meeting of stockholders. Stockholders recommending candidates for consideration by the Board of Directors in connection with the next annual meeting of stockholders should submit their written recommendation no later than June 1 of the year of that meeting.

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Stockholders who wish to nominate a person for election as a director in connection with an annual meeting of stockholders (as opposed to making a recommendation to the Governance Committee as described above) must deliver written notice to our Secretary within the time periods set forth on page 54 below under Stockholder Proposals for 2008 and in the manner further described in Section 2.11 of our Bylaws.

Equity Awards Committee. During part of fiscal 2007, we also had a standing Equity Awards Committee that our Board of Directors established in March 2005, which most recently consisted of Mr. Shakeel as the sole member. Our Board of Directors eliminated the Equity Awards Committee as a separate committee of our Board of Directors on October 7, 2006. Until this time, our Board of Directors delegated to the Equity Awards Committee limited authority to approve and establish the terms of stock options, restricted stock and restricted stock unit awards granted to eligible participants under our 2004 Performance Incentive Plan. Among other things, our Board of Directors required that all recipients of awards approved by the Equity Awards Committee be employees on our payroll or the payroll of one of our subsidiaries as of the grant date and could not include our executive and Section 16 officers. The Equity Awards Committee had limited discretion to specify the terms and conditions of awards it approved, subject to guidelines pre-established by our Board of Directors. Further, our Board of Directors specified a maximum number of shares of our common stock that could be subject to awards approved by the Equity Awards Committee to any one individual or during any six-month period. The Board of Directors also required the Equity Awards Committee to report periodically to the Compensation Committee of our Board of Directors.

Meetings and Attendance

During fiscal 2007, there were 17 meetings of the Board of Directors, 24 meetings of the Audit Committee, 16 meetings of the Compensation Committee, four meetings of the Governance Committee, and two meetings of the Executive Committee. Each of the directors attended 75% or more of the total number of meetings of the Board of Directors and the committees of the Board of Directors on which he or she served during the period that he or she served in fiscal 2007.

Our Board of Directors strongly encourages each director to attend our annual meeting of stockholders. All of our directors attended last year s annual meeting of stockholders.

Communicating with Directors

Our Board of Directors provides a process for stockholders to send communications to the Board of Directors, or to individual directors or groups of directors. In addition, interested parties may communicate with our non-executive Chairman of the Board (who presides over executive sessions of the non-management directors) or with the non-management directors as a group. The Board of Directors recommends that stockholders and other interested parties initiate any communications with the Board of Directors (or individual directors or groups of directors) in writing and send them in care of our Secretary. These communications should be sent by mail to Raymond M. Bukaty, Secretary, Western Digital Corporation, 20511 Lake Forest Drive, Lake Forest, California 92630-7741. This centralized process will assist the Board of Directors in reviewing and responding to stockholder and interested party communications in an appropriate manner. The name of any specific intended Board of Directors recipient or recipients should be clearly noted in the communication (including whether the communication is intended only for our non-executive Chairman of the Board or for the non-management directors as a group). The Board of Directors has instructed the Secretary to forward such correspondence only to the intended recipients; however, the Board of Directors has also instructed the Secretary, prior to forwarding any correspondence, to review such correspondence and not to forward any items deemed to be of a purely commercial or frivolous nature (such as spam) or otherwise obviously inappropriate for the intended recipient s consideration. In such cases, the Secretary may forward some of the correspondence elsewhere within Western Digital for review and possible response.

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Director Compensation

Director Compensation Table for Fiscal 2007

The table below summarizes the compensation paid to or earned by each of our directors in fiscal 2007 who is not also a named executive officer. Mr. Coyne, Mr. Shakeel and Mr. Massengill were each also one of our named executive officers during fiscal 2007 and information regarding the compensation paid to or earned by them in fiscal 2007 is presented below in the Summary Compensation Table Fiscal 2007 and the related explanatory tables. As our employees, Mr. Coyne, Mr. Shakeel and Mr. Massengill did not receive any additional compensation for their services as a director; however, Mr. Massengill became eligible for and received compensation as a director during fiscal 2007 after his employment with us ended on January 1, 2007.

	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)(3)	Option Awards ($)(4)(5)	All Other Compensation	Total ($)
Peter D. Behrendt	117,420	86,839	65,586		269,845
Kathleen A. Cote	139,920	86,839	65,586		292,345
Henry T. DeNero	162,420	86,839	65,586		314,845
William L. Kimsey	137,420	153,499	165,780		456,699
Michael D. Lambert	132,420	106,837	79,313		318,570
Roger H. Moore	124,920	86,839	65,586		277,345
Thomas E. Pardun	172,420(6)	86,839	65,586		324,845

(1) For a description of the fees earned by the non-employee directors during fiscal 2007, see the disclosure under Non-Employee Director Fees below.

(2) The amounts shown are the compensation costs recognized in our financial statements for fiscal 2007 related to restricted stock units awarded to each of our non-employee directors in fiscal 2007 and prior years, to the extent we recognized compensation cost in fiscal 2007 for such awards in accordance with the provisions of SFAS 123R. These costs were calculated based on the closing market price of our common stock on the respective grant dates and the other assumptions described in Note 8 in the Notes to Consolidated Financial Statements included in our 2007 Annual Report on Form 10-K but exclude the impact of estimated forfeitures related to service-based vesting conditions. No stock awards were forfeited by any of our non-employee directors during fiscal 2007.

(3) Each of the non-employee directors automatically received an award of 4,887 restricted stock units on January 1, 2007 in accordance with our Non-Employee Director Restricted Stock Unit Grant Program described below under Non-Employee Director Equity Awards. The grant date fair value of each of these awards was $99,988. See footnote (2) above for the assumptions used to value these awards.

In addition, the following table presents the aggregate number of outstanding stock awards held by each of our non-employee directors on June 29, 2007:

	Aggregate Number of	Aggregate Number of

Name	Unvested Restricted Stock Units(a)	Deferred Stock Units(b)
Peter D. Behrendt	14,787	2,120
Kathleen A. Cote	14,787	31,309
Henry T. DeNero	14,787	45,487
William L. Kimsey	14,787	4,828
Michael D. Lambert	14,787	
Roger H. Moore	14,787	57,567
Thomas E. Pardun	14,787	19,851

(a) For each non-employee director, this amount consists of (i) 4,887 restricted stock units granted on January 1, 2007 that are payable in an equivalent number of shares of our common stock on their January 1, 2010 vest date, (ii) 5,373 restricted stock units granted on January 1, 2006 that are payable in an equivalent number of shares of our common stock on their January 1, 2009 vest date, and (iii) 4,527 restricted stock units granted on January 1, 2005 that are payable in cash within 15 days of their January 1, 2008 vest date in an amount equal to the product of the number of vested restricted stock units and the preceding 45-day average trading price of our common stock as of the vest date (not to exceed 200% of the value of the restricted stock units on their grant date, or $88,095). These restricted stock unit awards were each granted under our Non-Employee Director Restricted Stock Unit Grant Program, as in effect on the grant date of the award and as further described below under Non-Employee Director Equity Awards.

For Mr. Behrendt, Ms. Cote and Mr. DeNero, this amount includes certain unvested restricted stock units, the payment of which the non-employee director has elected to defer until after the vesting date in accordance with our Deferred Compensation Plan, as follows: Mr. Behrendt (3,761 restricted stock units), Ms. Cote (5,373 restricted stock units) and Mr. DeNero (4,887 restricted stock units). For a description of our Deferred Compensation Plan as it applies to compensation deferred by our non-employee directors, see Deferred Compensation Plan for Non-Employee Directors below.

(b) For each non-employee director, this amount consists of stock units that the director has elected to defer pursuant to our Non-Employee Directors Stock-for-Fees Plan and our Deferred Compensation Plan in lieu of all or a portion of annual retainer or meeting fees received by the director during the year of the election. The deferred stock units are fully vested and are payable in an equivalent number of shares of our common stock on the payment date in accordance with the non-employee director s deferral election. For a description of the Non-Employee Directors Stock-for-Fees Plan, see Non-Employee Director Fees below.

(4) The amounts shown are the compensation costs recognized in our financial statements for fiscal 2007 related to stock options granted to each of our non-employee directors in fiscal 2007 and prior years, to the extent we recognized compensation cost in fiscal 2007 for such awards in accordance with the provisions of SFAS 123R. These award fair values were calculated in accordance with the assumptions described in Note 8 in the Notes to Consolidated Financial Statements included in our 2007 Annual Report on Form 10-K but exclude the impact of estimated forfeitures related to service-based vesting conditions. No stock options were forfeited by any of our non-employee directors during fiscal 2007.

(5) On February 6, 2007, pursuant to our Non-Employee Director Option Grant Program described below under Non-Employee Director Equity Awards, our Board of Directors approved a grant to each of our non-employee directors of a non-qualified stock option to purchase 9,185 shares of our common stock. Each stock option has a per-share exercise price of $19.09, which is equal to the closing market price of a share of our common stock on the grant date. The grant date fair value of each of these awards was $74,264. See footnote (4) above for the assumptions used to value these awards.

In addition, the following table presents the aggregate number of outstanding options held by each of our non-employee directors on June 29, 2007:

	Aggregate Number of Securities Underlying Stock Options		
Name	**Vested and Exercisable (#)**	**Unvested (#)**	**Total (#)**
Peter D. Behrendt	62,188	21,997	84,185
Kathleen A. Cote	29,688	21,997	51,685
Henry T. DeNero	49,688	21,997	71,685
William L. Kimsey	35,625	21,997	57,622

Michael D. Lambert	54,688	21,997	76,685
Roger H. Moore	49,688	21,997	71,685
Thomas E. Pardun	54,688	21,997	76,685

(6) Includes $130,000 of annual director fees earned during fiscal 2007 that Mr. Pardun elected to defer in accordance with our Deferred Compensation Plan. For a description of our Deferred Compensation Plan as it applies to compensation deferred by our non-employee directors, see Deferred Compensation Plan for Non-Employee Directors below.

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Non-Employee Director Fees

Annual Retainer and Committee Retainer Fees. The following table sets forth the schedule of the annual retainer and committee membership fees for each non-employee director, as approved by the Board of Directors on February 5, 2007 and made retroactive to January 1, 2007:

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

The retainer fee to our lead independent director referred to above is paid only if our Chairman of the Board is one of our employees. The annual retainer fees are generally paid on January 1 of each year, except that the retainer to our Chairman of the Board or to our lead independent director is paid in equal installments at the beginning of each calendar quarter.

In addition to the retainer fees provided to our non-employee directors described above, on May 3, 2007 our Board of Directors approved a special cash payment of $10,000 to each of Ms. Cote and Mr. Kimsey, $20,000 to Mr. DeNero and $10,000 to Mr. Pardun. Our Board approved the additional payments to Ms. Cote, Mr. Kimsey and Mr. DeNero in recognition of the significant time and effort expended by such individuals as members of a Special Committee of our Board of Directors that was formed in fiscal 2007 to conduct a voluntary review of our historical stock option grants. Our Board approved the additional payment to Mr. Pardun in recognition of his additional efforts as our lead independent director during the first and second quarters of fiscal 2007 in connection with certain succession planning and corporate governance matters.

We also reimburse our 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.

Non-Employee Directors Stock-for-Fees Plan. Under our Amended and Restated Non-Employee Directors Stock-for-Fees Plan, each non-employee director may elect prior to any calendar year to receive shares of our common stock in lieu of any or all of (1) the annual retainer fee(s) otherwise payable to him or her in cash for that calendar year, and/or (2) any meeting attendance fees otherwise payable to him or her in cash for that calendar year. We determine the number of shares of common stock payable to a non-employee director under the Non-Employee

Directors Stock-for-Fees Plan by dividing the amount of the cash fee the director would have otherwise received by the closing market price of a share of our common stock on the date the cash fee would have been paid.

At the time of the election for a calendar year under our Non-Employee Directors Stock-for-Fees Plan, we also permit each non-employee director to defer receipt of any shares he or she has elected to receive in lieu of annual retainer or meeting fees otherwise payable to the director. See Deferred Compensation Plan for Non-Employee Directors below for a further discussion of the material terms of our Deferred Compensation Plan as it applies to compensation deferred by our non-employee directors.

We are authorized to issue a maximum of 400,000 shares of our common stock under the Non-Employee Directors Stock-for-Fees Plan, subject to adjustments for stock splits and similar events. The Board of Directors has

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the power to suspend, discontinue or, subject to stockholder approval if required by applicable law or regulation, amend the Non-Employee Directors Stock-for-Fees Plan at any time.

In fiscal 2007, none of our non-employee directors made an election to receive shares of our common stock in lieu of annual retainer fees otherwise payable to the director for the year.

Non-Employee Director Equity Awards

Non-Employee Director Option Grant Program. Pursuant to our Non-Employee Director Option Grant Program adopted by our Board of Directors under our 2004 Performance Incentive Plan, we grant each non-employee director upon initial election or appointment to the Board of Directors an option to purchase a number of shares of our common stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant) equal to $300,000 on the grant date. Effective August 23, 2007, we also grant each member of the Board upon first becoming a non-employee director by virtue of retiring or otherwise ceasing to be employed by us an option to purchase a number of shares of common stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant) equal to $100,000. In addition, after a non-employee director joins the Board of Directors, immediately following each annual meeting of stockholders if he or she has been re-elected as a director at that annual meeting, the non-employee director will receive an option to purchase a number of shares of our common stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant) equal to $100,000 on the grant date.

The per-share exercise price of stock options granted under our Non-Employee Director Option Grant Program equals the closing market price of a share of our common stock on the date of grant, and the options vest over a period of four years, with 25% vesting on the first anniversary of the grant date and 6.25% vesting at the end of each three-month period thereafter. In addition, except as described in the next sentence, all stock options granted under the Non-Employee Director Option Grant Program have a ten year term and vested stock options will remain exercisable until the earlier of one year following the date the director ceases to be a director or the expiration date of the stock option. In the event the director retires after four years of service, all stock options granted to the director will immediately vest and will be exercisable by the director until the earlier of (i) three years after the director s retirement or (ii) the expiration of the original term of the option, provided that, for stock options granted after November 2006, the director has also performed at least twelve months of service for us after the grant of the option. In addition, if the director renders services to any of our competitors after ceasing to be a member on our Board, all outstanding stock options held by the director will immediately terminate and we will have the right to recover any profits realized by the director during the prior six-month period. Shares of common stock that we issue upon the exercise of stock options granted under the Non-Employee Director Option Grant Program are subject to the applicable share limits specified in our 2004 Performance Incentive Plan.

Non-Employee Director Restricted Stock Unit Grant Program. Our Board of Directors has adopted a Non-Employee Director Restricted Stock Unit Grant Program under our 2004 Performance Incentive Plan pursuant to which our non-employee directors automatically receive an award of restricted stock units on January 1 of each year equal in value to $100,000 (based on the closing market value of an equivalent number of shares of our common stock on the grant date). We award non-employee directors who are newly elected or appointed to the Board of Directors after January 1 of a given year a prorated award of restricted stock units for that year and, effective August 23, 2007, we also award members of our Board a prorated award of restricted stock units upon first becoming a non-employee director by virtue of retiring or otherwise ceasing to be employed by us after January 1 of a given year. Each award of restricted stock units represents the right to receive an equivalent number of shares of our common stock on its vest date.

All restricted stock units vest 100% on the third anniversary of the grant date. However, if a director served as a director for at least 48 continuous months when the director ceases to be a director, all unvested restricted stock units will vest immediately upon the director s termination, provided that, for restricted stock unit awards made after November 2006, the director has also performed at least twelve months of service for us after the grant of the restricted stock unit. If a director ceases to be a director for any reason (except removal) prior to meeting the eligibility requirements for accelerated vesting discussed above, then all of the unvested restricted stock units granted in the first twelve months prior to termination will terminate without vesting, 1/3 of all unvested restricted stock units granted within the second twelve-month period prior to termination will immediately vest and become payable, and 2/3 of all unvested restricted stock units granted within the third twelve-month period prior to termination will immediately vest and become payable. If dividends are paid prior to the vesting and payment of any restricted stock units granted to our non-employee directors, the director is credited with additional restricted stock units as dividend equivalents that are subject to the same vesting requirements as the underlying restricted stock units. Shares of common stock issued in respect of the Non-Employee Director Restricted Stock Unit Grant Program are subject to the applicable share limits specified in our 2004 Performance Incentive Plan.

Director Stock Ownership Guidelines. Our Board of Directors has established stock ownership guidelines for our directors. By November 18, 2009 or within three years of joining the Board, whichever occurs later, each director must own and continue to maintain at least 15,000 shares of our common stock. Common stock purchased on the open market, common stock obtained through option exercises, restricted stock units, deferred stock units and common stock beneficially owned by the director by virtue of being held in a trust, by a spouse or by the director s minor children count toward the stock ownership requirement.

Deferred Compensation Plan for Non-Employee Directors

For each calendar year, we permit each non-employee director to defer payment of between a minimum of $2,000 and a maximum of 100% of any cash compensation to be paid to the director during that calendar year in accordance with our Deferred Compensation Plan. If a director has elected to receive common stock pursuant to our Non-Employee Directors Stock-for-Fees Plan in lieu of annual retainer or meeting fees otherwise payable to the director, the director is also permitted to make a deferral election with respect to such common stock. In that event, we credit deferred stock units to the director s deferred compensation account in an amount equal to the cash fee the director would have otherwise received by the closing market price of a share of our common stock on the date the cash fee would have been paid. The deferred stock units carry no voting or dividend rights.

We also permit non-employee directors to defer receipt of any restricted stock units awarded under our Non-Employee Director Restricted Stock Unit Grant Program beyond the vesting date of the award. Restricted stock units and other amounts deferred in cash by a director are generally credited and payable in the same manner as amounts deferred by our executive officers and other participants in our Deferred Compensation Plan as further described below under Executive Compensation Non-Qualified Deferred Compensation Fiscal 2007 beginning on page 40 below.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

When we refer to our executives or executive officers in this section, we mean our named executive officers listed in the Summary Compensation Table Fiscal 2007 below.

Executive Compensation Overview

Overview

Our executive compensation program is administered by our Compensation Committee. The Compensation Committee is responsible for approving all elements of compensation for our executive officers. Mr. Coyne, our Chief Executive Officer, makes recommendations to the Compensation Committee regarding the base salary, bonuses, equity award levels and other incentive compensation to our other executive officers. In addition, from time to time, the Compensation Committee may confer with other members of our Board of Directors in determining the compensation of Mr. Coyne and our other executive officers. The Compensation Committee considers all recommendations with respect to compensation to our executive officers; however, the Compensation Committee is solely responsible for making the final decision regarding compensation to our executive officers.

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Compensation Philosophy

Our compensation philosophy for our executive officers is based on the belief that the interests of our executives should be closely aligned with those of our stockholders. To support this philosophy, a large portion of each executive officer s compensation is placed at risk and linked to the accomplishment of specific results that are expected to lead to the creation of short-term and long-term value for our stockholders. Our compensation policies and programs are designed to:

- attract, develop, reward and retain highly qualified and talented individuals;
- motivate executives to improve the overall performance and profitability of our company as a whole as well as the business group for which each executive is responsible, and reward executives when specific measurable results have been achieved;
- encourage accountability by determining salaries and incentive awards based on each executive s individual performance and contribution;
- tie incentive awards to financial and non-financial metrics that drive the performance of our common stock over the long term to further reinforce the linkage between the interests of our stockholders and our executives; and
- ensure compensation levels are both externally competitive and internally equitable.

Elements of Compensation

Our current executive compensation program consists of several compensation elements. We believe that each of these elements helps us to achieve one or more of the compensation objectives specified above. The elements of our current executive compensation program are:

- annual cash compensation, consisting of salary and bonus;
- long-term incentive compensation, consisting of stock options, restricted stock units and long-term performance cash awards;
- post-employment compensation, consisting of retirement benefits, our deferred compensation program and severance and other benefits upon termination of employment; and
- perquisites and other benefits.

The Compensation Committee s practice is to consider all elements of compensation and our compensation philosophy when determining the appropriate level and mix of each element of compensation for our executive officers. While the Compensation Committee follows general guidelines in setting compensation for our executives, as described in more detail below, members of the Compensation Committee use their experience and judgment in determining the specific level and mix of compensation for each of our executive officers.

The Compensation Committee reviews compensation to our executive officers on an annual basis and at the time of hiring, a promotion or other change in responsibilities. The Compensation Committee s annual review typically occurs in late Summer or early Fall of each year and, in fiscal 2007, this review commenced in August 2006 and continued during the Compensation Committee s meeting in November 2006. The annual review by the Compensation

Committee consists of a review of all elements of total annual cash compensation and long-term incentive compensation for the executive officers.

Compensation Consultant and Peer Group Benchmarking

Compensation Consultant

The Compensation Committee s practice has been to retain compensation consultants to provide objective advice and counsel to the Compensation Committee on all matters related to the compensation of our executive officers and our compensation programs generally, including advising on trends in executive compensation and

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assisting the Compensation Committee in assessing competitive pay levels and the appropriate mix of compensation elements.

In August 2005, the Compensation Committee retained Mercer Human Resources Consulting as its compensation consultant. The Compensation Committee s relationship with Mercer is reviewed annually and has continued in fiscal 2007 with Mercer attending all meetings of the Compensation Committee held during the year.

Compensation Benchmarks

To assist the Compensation Committee in assessing the competitiveness of compensation levels and the appropriate mix of compensation elements to our executive officers, Mercer provides comparative market data on compensation practices and programs as well as guidance on industry best practices. In general, the market data is collected from independent published surveys for similarly-sized companies and from public filings of a group of peer companies in the high-technology industry.

The Compensation Committee, with guidance from Mercer, determines the composition of our peer group and reevaluates this group on an annual basis. For fiscal 2007, our peer group consisted of 19 U.S.-based technology companies of comparable size and performance to us. Most of the companies included in our peer group are also included in the Dow Jones U.S. Technology, Hardware and Equipment Index. Below is a list of the companies in our peer group in fiscal 2007:

Peer Group Companies

Advanced Micro Devices, Inc.	National Semiconductor Corp.
Analog Devices, Inc.	Network Appliance Inc.
Applied Materials Inc.	Nvidia Corp.
Broadcom Corp.	ON Semiconductor Corporation
EMC Corporation	Qualcomm
Freescale Semiconductor	SanDisk Corporation
Gateway Inc.	Seagate Technology
Lexmark International Group Inc.	Spansion Inc.
LSI Logic Corporation	Texas Instruments Incorporated
Micron Technology Inc.	

On at least an annual basis, Mercer surveys market data as well as compensation data from our peer group companies and benchmarks the compensation paid to our executive officers. This benchmarking information is used by the Compensation Committee to help determine the level and appropriate mix of total annual cash compensation and long-term incentive compensation to our executive officers. Mercer also periodically advises the Compensation Committee on industry and best practices involving post-employment compensation as well as perquisites and other benefits to our executive officers.

As stated above, the Compensation Committee does not use a specific formula to set compensation for our executive officers. However, the intent of the Compensation Committee is to provide a total direct compensation opportunity for executive officers that is at or above median, but with an above-average amount of the total direct compensation opportunity at risk and dependent upon our performance. As a result, total annual cash compensation and the grant value of long-term incentive compensation, when combined, are generally targeted at or above the median of the total direct compensation levels for comparable jobs in the marketplace based on survey and peer group data. Individual executives may vary from this positioning based on their experience, expertise, importance of the role at our company relative to other companies, and potential for future performance, among other factors. In addition, depending upon the executive s individual and business group performance as measured against financial and/or non-financial goals established by the Compensation Committee, amounts paid under our equity and non-equity incentive compensation programs may lead to total direct compensation levels that are lower or higher than the targeted total direct compensation levels for comparable jobs.

On a cumulative basis, the total direct compensation to our executive officers in fiscal 2007 was generally consistent with our intended pay strategy.

Employment Agreements

The Compensation Committee does not have an established policy for entering into employment agreements with executive officers. Generally, absent other factors, the Compensation Committee s intent is to retain the flexibility to review and adjust compensation to our executives on at least an annual basis. In certain circumstances, however, we have entered into employment agreements with our executive officers where we determined that the retention of the executive during the term of the agreement was critical to our future success. In these cases, we typically agree to fix some or all of the executive s compensation for the term of the agreement.

In August 2005, in connection with Mr. Shakeel s succession of Mr. Massengill as our Chief Executive Officer on October 1, 2005, we entered into employment agreements with each of Mr. Massengill and Mr. Shakeel. These agreements fixed base salary, the semi-annual target bonus award under our Incentive Compensation Plan and other long-term incentive compensation to each of Mr. Massengill and Mr. Shakeel for the term of these agreements. On October 31, 2006, in connection with Mr. Shakeel s decision to relinquish his role as Chief Executive Officer, we amended our employment agreement with Mr. Shakeel to accelerate its termination date as well as to modify the terms of certain equity awards to Mr. Shakeel. At the same time, we entered into an employment agreement with Mr. Coyne that provided for his promotion to Chief Executive Officer on January 2, 2007 and his continued employment in that capacity through January 1, 2012. Pursuant to this agreement, the Compensation Committee fixed the base salary and semi-annual target bonus award under our Incentive Compensation Plan to Mr. Coyne for the term of the agreement and provided for the award of certain long-term incentive compensation to Mr. Coyne as well as Mr. Coyne s participation in our employee benefit plans on terms consistent with those applicable to our other executives.

In each case, in consultation with Mercer, the Compensation Committee considered its overall compensation philosophy and objectives in setting the compensation of each of Mr. Coyne, Mr. Shakeel and Mr. Massengill during the term of their respective employment agreements, while also attempting to structure the agreements in a manner so as to motivate the executives and encourage their continued service during the full term of the agreements. The material terms of these employment agreements are described in further detail under Description of Compensation for Named Executive Officers beginning on page 33.

2007 Executive Compensation Program Elements

Total Annual Cash Compensation

Total annual cash compensation consists of base salary and semi-annual cash bonuses under our Incentive Compensation Program.

Base Salary

Base salary levels for our executive officers are determined by the Compensation Committee and are generally targeted at the median of base salaries paid to similarly situated executives at comparable companies based on market and peer group data, which the Compensation Committee believes to be the threshold salary level needed to attract and retain talented executives. However, base salaries of individual executive officers can and do vary from this salary benchmark based on a review of such factors as the competitive environment, our financial performance, the executive s experience level and scope of responsibility, and the overall need and desire to retain the executive in light of current performance, future performance, future potential and the overall contribution of the executive. The Compensation Committee exercises its judgment based on all of these factors in making its decisions. No specific formula is applied to determine the weight of each criterion.

Base salaries for our executive officers are reviewed annually and at the time of a promotion or other change in responsibilities. During fiscal 2007, as discussed above, Mr. Shakeel and Mr. Massengill were both parties to employment agreements with us that provided for an annual base salary of $800,000 to be paid through their last day of employment with us January 1, 2007 for Mr. Massengill and June 29, 2007 for Mr. Shakeel. In addition, pursuant to the employment agreement we entered into with Mr. Coyne on October 31, 2006 and in recognition of Mr. Coyne s promotion to Chief Executive Officer, the Compensation Committee approved an increase in Mr. Coyne s annual base salary from $650,000 to $800,000.

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The Compensation Committee reviewed the base salaries paid to all other continuing executive officers during its annual review in August 2006. Consistent with the compensation objectives described above, the Compensation Committee believes that, absent other factors, a substantial proportion of total direct compensation for our executive officers should be performance-based, equity-based and/or long-term in nature, in order to more effectively motivate and reward the executive for achieving specific financial and non-financial results and to further reinforce the linkage between the interests of our executives and our stockholders. As a result, in connection with its annual review, the Compensation Committee determined that no change would be made to the base salaries paid to Mr. Bukaty and Dr. Moghadam. After reviewing market and peer group data, the Compensation Committee approved a 12.5% increase that raised Mr. Milligan s base salary from $400,000 to $450,000 effective November 2006.

In addition, in March 2007, the Compensation Committee established the base salary of Mr. Leyden, who joined us on May 7, 2007 as Executive Vice President, Finance and succeeded Mr. Milligan as Chief Financial Officer on September 1, 2007. Following a review of appropriate market and benchmarking data, a consideration of Mr. Leyden s experience level, expected responsibilities and future potential contributions and consistent with the Compensation Committee s overall compensation objectives, the Compensation Committee determined that it was appropriate to establish Mr. Leyden s base salary at $409,000.

Semi-Annual Incentive Compensation

Our Incentive Compensation Program, or ICP, formally links cash bonuses for executive officers and other participating employees to our semi-annual financial performance as well as other discretionary factors, including non-financial and strategic operating objectives, business and industry conditions and individual and business group performance. We believe that the ICP is a valuable component of our overall compensation program because it motivates our executives to achieve specified financial and non-financial goals that help to drive our overall financial performance. The ICP also encourages accountability by rewarding executives based both on the actual financial performance achieved as well as other discretionary factors such as individual and business group performance.

The Compensation Committee establishes target awards under the ICP for each executive officer that are expressed as a percentage of the executive s semi-annual base salary and that are based on the executive s position and responsibility. These target awards are reviewed annually by the Compensation Committee as part of its compensation review and at the time of hiring, a promotion or other change in responsibilities, and may be increased based on the executive s performance and/or market factors. ICP target awards are structured to meet the total annual cash compensation targets discussed above if the applicable performance targets are met.

During fiscal 2007, Dr. Moghadam was the only executive officer to receive an adjustment in his ICP target award, which increased from 65% of his semi-annual base salary to 75% of his semi-annual base salary in order to better align his target award with those of our other executive officers. The target award for each of Mr. Bukaty and Mr. Milligan remained 75% of his semi-annual base salary and the target award for each of Mr. Coyne, Mr. Shakeel and Mr. Massengill remained 100% of his semi-annual base salary, except that Mr. Massengill was eligible for and received a bonus payment under the ICP only for the first half of fiscal 2007, at which time his employment ended. In addition, in connection with our hiring of Mr. Leyden, the Compensation Committee established an ICP target award for Mr. Leyden at 75% of his semi-annual base salary. The Compensation Committee believes that the level of these ICP target awards continues to result in targeted total annual cash compensation consistent with our compensation philosophy and objectives discussed above.

Under the ICP, prior to commencement of each semi-annual performance period under our ICP, the Compensation Committee establishes specific operating and/or financial performance goals to correspond to specific achievement percentages ranging between 0% and 200%. At the end of each semi-annual period, the Compensation Committee assigns a company achievement percentage ranging between 0% to 200% based on its evaluation of our actual performance as measured against the pre-established operating and/or financial performance goals. For both the first half and second half of fiscal 2007, the Compensation Committee selected earnings per share as the financial performance goal and established specific earnings per share goals to correspond to

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specific achievement percentages ranging between 0% and 200%. In addition, for the first half of fiscal 2007, the Compensation Committee established an additional revenue objective as a threshold target for funding of the ICP.

We believe that disclosure of the specific performance goals that our Compensation Committee sets under our ICP every six months would cause us competitive harm because disclosure would both highlight our view of the dynamics that exist in the marketplace during any given six-month period and shed light on the operational or financial priorities which we had set in response to those dynamics. Disclosing the specific performance goals under our ICP for the first and second halves of fiscal year 2007 would cause us competitive harm because the disclosure would indicate trends with respect to our internal goal-setting strategies for growing our earnings per share. In each case, the goals the Committee set during the past fiscal year were at levels intended to be challenging so as to motivate our executives and the other participants in our ICP to perform at a high level to help us achieve one or more of our established financial objectives for the relevant period.

At the end of the applicable performance period, the Compensation Committee determines the company achievement percentage that we attained during the semi-annual period based upon our performance against the established operating and/or financial performance goals. In its discretion and based upon the recommendation of the Chief Executive Officer, the Compensation Committee may adjust the company achievement percentage upward or downward according to our overall achievement of other key non-financial and strategic operating objectives as well as changes in the business and industry that occur during the performance period and how well we and our executive officers were able to adapt to those changes. The company achievement percentage, as adjusted by the Compensation Committee, is referred to as the company funding percentage and determines the overall funding level for bonus payments to our executives for the applicable semi-annual performance period.

Actual bonus amounts to the executive officers for each semi-annual performance period under the ICP are calculated as follows and are subject to further adjustment based on individual performance as described below:

Semi-annual ICP Bonus Amount	=	*Semi-annual Salary*	*x*	*ICP Target Percentage*	*x*	*Company Funding Percentage*

Following determination of the ICP bonus amount for the applicable semi-annual period, the Compensation Committee reserves the discretion to further adjust the bonus payment to an executive officer based upon his individual and business group performance. For the Chief Executive Officer, any adjustments are made by the Compensation Committee depending upon the Chief Executive Officer s performance against performance goals established by the Compensation Committee. For the other executive officers, any adjustments are made by the Compensation Committee, taking into account the recommendation of the Chief Executive Officer, based upon individual performance goals developed by the Chief Executive Officer with input from the executive that are intended to focus the executive s attention on the achievement of financial and other business objectives within his individual area of responsibility and management.

For the first half of fiscal 2007, after evaluating our performance against the pre-established earnings per share goals and after adjusting the resulting company achievement percentage in response to our progress towards key strategic objectives as well as changes in the business and industry that occurred during the performance period, the Compensation Committee approved a company funding percentage for the ICP for our executive officers of 150%. The Compensation Committee did not exercise any additional discretion in the payment of bonuses to our executive officers under the ICP for the first half of fiscal 2007. The following table summarizes the bonus payments to each of the executive officers for the first half of fiscal 2007:

Name	ICP Award
John F. Coyne	$ 487,500
Arif Shakeel	600,000
Matthew E. Massengill	600,000
Stephen D. Milligan	233,005
Raymond M. Bukaty	225,000
Hossein M. Moghadam	225,000

For the second half of fiscal 2007, after evaluating our performance against the pre-established earnings per share goals and after adjusting the resulting company achievement percentage in response to business conditions and our progress towards key strategic objectives, the Compensation Committee approved a company funding percentage for the ICP for our executive officers of 100%. The Compensation Committee did not exercise any additional discretion in the payment of bonuses to our executive officers under the ICP for the second half of fiscal 2007, except that the bonus paid to Mr. Leyden represents only a pro-rata award based on the period that he was employed by us during the performance period. The following table summarizes the bonus payments to each of the executive officers for the second half of fiscal 2007: