

WESTERN DIGITAL CORP

Form 11-K

December 21, 2007

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

**FORM 11-K**

þ **Annual Report pursuant to Section 15(d) of the Securities Exchange Act of 1934 [Fee Required]  
For the fiscal year ended June 30, 2007**

**OR**

o **Transition Report pursuant to Section 15(d) of the Securities Exchange Act of 1934 [No Fee  
Required]  
For the transition period from \_\_\_ to \_\_\_**

**Commission File Number 1-8703**

**A. Full title of the plan and the address of the plan, if different from that of the issuer named below:**

**WESTERN DIGITAL CORPORATION 401(K) PLAN**

**B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:**

**WESTERN DIGITAL CORPORATION**

**20511 Lake Forest Drive**

**Lake Forest, California 92630**

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**INTRODUCTION**

Western Digital Corporation (the Company ) has established the Western Digital Corporation 401(k) Plan (the Plan ), formerly known as the Western Digital Corporation Retirement Savings and Profit Sharing Plan. The Plan is intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended (the Code ) as a profit sharing plan and Section 401(k) of the Code as a cash or deferred arrangement plan.

**REQUIRED INFORMATION**

I. Financial Statements:

These statements are listed in the Index to the Financial Statements.

II. Exhibits:

Consent of Independent Registered Public Accounting Firm.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

WESTERN DIGITAL CORPORATION 401(K) PLAN

Date: December 21, 2007

By: /s/ TIMOTHY M. LEYDEN  
Timothy M. Leyden  
Retirement, Severance, and Administrative  
Committee Member

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<b>Supplemental Schedule</b>	
Schedule H, Line 4i Schedule of Assets (Held at End of Year) at June 30, 2007	13
Note: Additional supplemental schedules have been omitted because they are not applicable or are not required by 29 CFR 2520.103 10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended.	

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**Report of Independent Registered Public Accounting Firm**

Retirement, Severance, and Administrative Committee

Western Digital Corporation 401(k) Plan:

We have audited the accompanying statements of net assets available for plan benefits of the Western Digital Corporation 401(k) Plan (the Plan) as of June 30, 2007 and 2006, and the related statements of changes in net assets available for plan benefits for the years then ended, and the supplemental schedule of schedule H, line 4i schedule of assets (held at end of year) as of June 30, 2007. These financial statements and supplemental schedule are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Western Digital Corporation 401(k) Plan as of June 30, 2007 and 2006, and the changes in net assets available for plan benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of schedule H, line 4i schedule of assets (held at end of year) as of June 30, 2007 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

Los Angeles, California  
December 21, 2007

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**WESTERN DIGITAL CORPORATION 401(K) PLAN**  
**Statements of Net Assets Available for Plan Benefits**  
**(in thousands)**

	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Investments, at fair value	\$ 250,702	\$ 215,465
Participant loans	3,198	2,711
Total Investments	253,900	218,176
Non-interest bearing cash	24	85
Net assets available for Plan benefits, at fair value	253,924	218,261
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	658	903
<b>Net assets available for Plan benefits</b>	<b>\$ 254,582</b>	<b>\$ 219,164</b>

See accompanying notes to financial statements.

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**WESTERN DIGITAL CORPORATION 401(K) PLAN**  
**Statements of Changes in Net Assets Available for Plan Benefits**  
(in thousands)

	<b>Year ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Additions to net assets attributable to:</b>		
Contributions:		
Participant	\$ 21,019	\$ 19,669
Employer	3,829	3,566
Total contributions	24,848	23,235
Investment income (expense):		
Net appreciation in fair value of investments	20,561	11,740
Dividend income	7,766	11,116
Interest income	198	153
Other expense	(236)	(61)
Total investment income	28,289	22,948
<b>Deductions from net assets attributable to:</b>		
Participant distributions paid	(17,719)	(10,847)
Net increase in net assets available for Plan benefits	35,418	35,336
<b>Net assets available for Plan benefits:</b>		
Beginning of year	219,164	183,828
End of year	\$ 254,582	\$ 219,164

See accompanying notes to financial statements.

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**WESTERN DIGITAL CORPORATION 401(K) PLAN  
Notes to Financial Statements  
June 30, 2007 and 2006**

**(1) Description of the Plan**

**General**

The following description of the Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions. The Plan is a defined contribution plan as defined by the Employee Retirement Income Security Act of 1974 ( ERISA ).

**Administration of the Plan**

The Retirement, Severance, and Administrative Committee (the Committee ), appointed by the Board of Directors and consisting of at least three members, has the authority to control and manage the operation and administration of the Plan. The Plan assets are held under a trust for which T. Rowe Price Trust Company acts as trustee and are administered under a trust agreement, which requires that the trustee hold, administer, and distribute the funds of the Plan in accordance with the text of the Plan and the instructions of the Committee or its designees. The compensation or fees of accountants, counsel and other specialists and any other costs of administering the Plan or the trust are paid by the Company or charged to the trust at the discretion of the Company. Administrative expenses that are not paid by the Company are paid by the Plan.

**Contributions**

U.S. based employees of the Company, who meet the Plan's eligibility criteria, are eligible to participate in the Plan and to receive employer matching contributions. During 2007 and 2006, eligible employees were able to contribute up to 30% of their compensation on a pretax basis provided that contributions did not exceed Internal Revenue Service (IRS) limitations. In addition, effective July 1, 2002, the Plan was amended by the Company to allow employees who have attained age fifty before the close of a Plan year to make a catch up contribution. The amount of the catch up contribution is subject to IRS limitations and is not eligible for matching contributions under the Plan. The Plan was also amended to allow the Company to make contributions equal to 50% of pretax participant contributions to the Plan, up to a maximum matching contribution of \$2,000 for any calendar year. The Company may also make additional contributions at its discretion. During 2007 and 2006, the Company did not make any discretionary contributions to the Plan. The Company may suspend matching contributions when it does not have sufficient net profits to make the applicable matching contribution. Contributions, including the Company's matching contribution to the Plan, are recorded as soon as administratively possible after the Company makes payroll deductions from Plan participants.

**Investments**

As of June 30, 2007 and 2006, the Plan had 27 and 25 investment options, respectively, available to eligible participants in the Plan. As of June 30, 2007 and 2006, all of the Plan's assets were invested in mutual funds, common collective trust funds (CCTs), Western Digital common stock, publicly traded equity investments or participant loans. Subject to certain limits, participants may transfer all or a portion of the balance in their accounts between investment funds on a daily basis. Participants may also transfer up to a maximum of 25% of their overall plan balance, less any outstanding loan amounts, to the Tradelink Investment account, which is a self-directed brokerage account that offers discount brokerage services for securities not offered under the Plan. The self-directed brokerage account allows plan participants to invest in various common stock and mutual funds.

**Participant Loans**

Loans can be made to a participant at a minimum of \$1,000 and up to an amount equal to the lesser of: \$50,000 reduced by the participant's highest outstanding balance during the preceding 12 months or 50% of a participant's vested account balance. The loans bear interest at a rate fixed at the time of the loan equal to 1% above the current prime rate published by T. Rowe Price Trust Company and are generally payable in installments over periods ranging from one to five years, unless the loan is used for the purchase of a primary residence, in which case the repayment period may be up to ten years. Principal and interest payments are allocated to the participant's accounts in the same manner as their current contributions. The Plan allows participants to have no more than two active loans at a time. The annual interest rate charged on employee loans during 2007 and 2006 ranged from 5.0% to 10.0%.



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**WESTERN DIGITAL CORPORATION 401(K) PLAN  
Notes to Financial Statements (continued)**

**Participant Accounts**

A separate account is maintained for each participant in each designated fund. Each account is adjusted for contributions and net investment income or loss on a daily basis. Net investment income or loss is allocated to the accounts in the same proportion as the participant's beginning account balance invested in the fund (as defined in the Plan) bears to the total of all participants' beginning account balances invested in the fund.

**Payment of Benefits and Forfeitures**

Upon termination of service, participants may receive a lump-sum payment in cash and/or shares of the Company's common stock. The nonvested portion of terminated participants' accounts is forfeited subject to a five-year reinstatement period. Plan forfeitures not needed to restore forfeited matching contributions are used to pay Plan expenses or used by the Company to reduce employer contributions. During 2007, Plan forfeitures totaling approximately \$344,000 were used to reduce employer contributions, compared to 2006 in which approximately \$98,000 were used to reduce employer contributions. Unallocated forfeitures at June 30, 2007 and 2006 were not significant to the financial statements.

Certain restrictions apply to withdrawals of amounts from the Plan while a participant continues to be employed by the Company.

**Vesting**

Participants are at all times one hundred percent vested in the value of their voluntary contributions and the Company's profit sharing contributions. A participant vests 20% in employer contributions after one year of service and 20% annually thereafter (as defined in the Plan), or upon retirement (at normal retirement age), permanent disability or death.

**Plan Amendments**

Effective April 1, 2006, the Plan was amended to allow salary reduction contributions to be automatically withheld from an eligible employee's compensation beginning 30 days following an eligible employee's employment commencement date. The automatic contribution is set at 3% of the eligible employee's compensation for each payroll period, unless the employee elects a different percentage. Such contributions are treated as pre-tax contributions for all purposes under the Plan, including, but not limited to provisions relating to matching contributions by the Company.

**(2) Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying financial statements of the Plan have been prepared on an accrual basis of accounting and present the net assets available for Plan benefits as of June 30, 2007 and 2006 and changes in net assets available for Plan benefits for the years ended June 30, 2007 and 2006. Unless otherwise indicated, references to specific years are to the Plan's fiscal year.

**Valuation of Investments and Income Recognition**

Investments in common stock traded on national securities exchanges are valued at current market values, determined through reference to public market information on the last business day of the Plan's fiscal year. Securities not traded on the last business day are valued at the last reported bid price. Investments in mutual funds are reported at fair market value. Investments in common collective trust funds ( CCTs ) are stated at estimated fair values, which have been determined based on the unit values of the CCTs. Unit values are determined by the bank sponsoring such CCTs by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Purchases and sales of securities are recorded on a trade-date basis. Participant loans are carried at their outstanding balance, which approximates fair market value. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

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**WESTERN DIGITAL CORPORATION 401(K) PLAN  
Notes to Financial Statements (continued)**

The T. Rowe Price Stable Value Fund invests in a variety of investment contracts such as traditional guaranteed investment contracts (GICs) issued by insurance companies and other financial institutions and other investment products with similar characteristics. As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the statement of net assets available for benefits presents the fair value of the investment contracts from fair value to contract value. Prior year balances have been reclassified accordingly. The statement of changes in net assets available for benefits is prepared on a contract value basis.

**Payment of Benefits**

Benefits are recorded when paid. At June 30, 2007 and 2006, there were no amounts allocated to accounts of persons who had elected to withdraw from the Plan, but had not been paid at that date.

**Reclassifications**

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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**WESTERN DIGITAL CORPORATION 401(K) PLAN**  
**Notes to Financial Statements (continued)**

**(3) Investments**

The following presents the Plan's investments as of June 30, 2007 and 2006, with individual investments that represent 5% or more of the Plan's net assets, separately identified (in thousands):

	<b>2007</b>	<b>2006</b>
<b>Common Stock Fund:</b>		
Western Digital Stock Fund	\$ 25,248	\$ 28,012
<b>Mutual Funds:</b>		
Equity Income Fund	21,961	15,838
Magellan Fund	-*	22,666
International Stock Fund	16,677	11,536
Mid-Cap Growth Fund	20,899	17,322
Science & Technology Fund	12,972	11,108
Small-Cap Value Fund	23,552	20,245
<b>Common Collective Trust Funds:</b>		
Equity Index Trust	40,774	17,859
Stable Value Fund	42,993	40,781
<b>All investments less than 5% of Plan Assets</b>	<b>48,824</b>	<b>32,809</b>
Total Investments	\$ 253,900	\$ 218,176

\* This amount represents less than 5% of the Plan's net assets during the respective year, presented for comparative purposes.

During 2007 and 2006, the Plan's investments, including gains and losses on investments bought and sold as well as held during the year, appreciated (depreciated) in value as follows (in thousands):

	<b>2007</b>	<b>2006</b>
Common Stock Fund	\$ (322)	\$ 10,477
Mutual Funds	13,714	(1,693)
Common Collective Trust Funds	7,169	2,956
	<b>\$ 20,561</b>	<b>\$ 11,740</b>

**(4) Profit Sharing Feature**

The Company adopted an annual profit sharing feature effective as of the beginning of the Company's 1992 fiscal year. All eligible domestic employees of the Company who are employed on the last day of the Company's fiscal year are eligible to participate in the profit sharing component. The amount of profit sharing paid to participants, which is granted at the discretion of the Company, is dependent upon their eligible compensation earned during the fiscal year. If approved, a portion of each eligible participant's allocation of the Company's profit sharing contribution is deposited

into an individual profit sharing account established under the Plan and the excess allocable to such participant, if any, is paid as a fiscal year-end cash bonus. Benefits are generally payable following retirement, disability, death, hardship or termination of employment. During 2007 and 2006, the Company made no profit sharing contributions to the Plan.

**(5) Party-In-Interest Transactions**

Certain investments in mutual funds, investments within the Tradelink Investment account and assets held in a non-discretionary trust within the Plan are managed by T. Rowe Price Trust Company, the Plan trustee. Purchases and sales involving these investment options are performed in the open market at fair value and qualify as party-in-interest transactions. Such transactions, while considered party-in-interest transactions under ERISA, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party-in-interest transactions under ERISA. The Plan paid approximately \$122,000 and \$90,000 to T. Rowe Price Trust Company in fees and expenses for the years ended June 30, 2007 and 2006, respectively.

**Table of Contents****WESTERN DIGITAL CORPORATION 401(K) PLAN  
Notes to Financial Statements (continued)****(6) Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their employer contributions.

**(7) Tax Status**

The Internal Revenue Service has determined and informed the Company by letter, dated September 25, 2002, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan Administrator and the Plan's tax counsel believe that the Plan is designed and currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

**(8) Risks and Uncertainties**

The Plan invests in various types of investment securities, including mutual funds, actively managed funds, common collective trust funds and Western Digital Corporation common stock. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

Additionally, certain mutual funds offered by the Plan invest in the securities of foreign companies, which involve special risks and considerations not typically associated with investing in U.S. companies. These risks include devaluation of currencies, less reliable information about issuers, different securities transaction clearance and settlement practices, and possible adverse political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid and their prices more volatile than similar types of securities of comparable U.S. companies.

As of June 30, 2007 and 2006, approximately 10% and 13%, respectively, of total Plan investments were invested in Western Digital Corporation common stock.

**(9) Reconciliation of the Financial Statements to the Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of and for the year ended June 30, 2007:

Net assets available for benefits per the financial statements	\$ 254,582
Adjustment from fair value to contract value for fully benefit-responsive Investment contracts	(658)
Net assets available for benefits per the Form 5500	\$ 253,924

The following is a reconciliation of increase in net assets available for benefits per the financial statements to the Form 5500:

Total increase in net assets available for benefits per the financial statements	\$ 35,418
Adjustment from fair value to contract value for fully benefit-responsive Investment contracts	(658)
Total increase in net assets available for benefits per the Form 5500	\$ 34,760



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**WESTERN DIGITAL CORPORATION 401(K) PLAN**  
**Schedule H, Line 4i Schedule of Assets (Held at End of Year)**  
**June 30, 2007**  
**(in thousands\*\*)**

Identity of Issue, Borrower, Lessor or Similar Party	Description of Investment, Including Collateral or Par Value	Current Value	Cost
<b>Common stock:</b>			
* Western Digital Corporation	1,305 shares common stock, \$.01 par value	\$ 25,248	\$ 16,884
<b>Mutual funds:</b>			
<b>Bond funds:</b>			
Pacific Investment Management Company	1,088 shares PIMCO Total Return II Mutual Fund	10,468	11,024
Pacific Investment Management Company	603 shares PIMCO High Yield Fund	5,893	5,886
<b>Stock funds:</b>			
* T. Rowe Price Trust Company	556 shares T. Rowe Price Science & Technology Mutual Fund	12,972	15,091
* T. Rowe Price Trust Company	702 shares T. Rowe Price Equity Income Mutual Fund	21,961	18,334
* T. Rowe Price Trust Company	527 shares T. Rowe Price Small-Cap Value Mutual Fund	23,552	17,484
* T. Rowe Price Trust Company	338 shares T. Rowe Price Mid-Cap Growth Mutual Fund	20,899	16,986
* T. Rowe Price Trust Company	913 shares T. Rowe Price International Stock Mutual Fund	16,677	13,760
* T. Rowe Price Trust Company	29 shares Retirement Income Fund	389	378
* T. Rowe Price Trust Company	20 shares Retirement 2005 Fund	240	227
* T. Rowe Price Trust Company	128 shares Retirement 2010 Fund	2,149	2,006
* T. Rowe Price Trust Company	135 shares Retirement 2015 Fund	1,786	1,695
* T. Rowe Price Trust Company	263 shares Retirement 2020 Fund	4,900	4,577
* T. Rowe Price Trust Company	150 shares Retirement 2025 Fund	2,085	1,929
* T. Rowe Price Trust Company	105 shares Retirement 2030 Fund	2,108	1,934
* T. Rowe Price Trust Company	54 shares Retirement 2035 Fund	768	714
* T. Rowe Price Trust Company	54 shares Retirement 2040 Fund	1,093	1,015
* T. Rowe Price Trust Company	39 shares Retirement 2045 Fund	526	480
* T. Rowe Price Trust Company	1 share Retirement 2050 Fund	16	15
* T. Rowe Price Trust Company	2 shares Retirement 2055 Fund	26	26
Wells Fargo	141 shares Wells Fargo Large Company Growth Mutual Fund	7,532	6,418
Wasatch Funds	170 shares Wasatch Ultra Growth Fund	4,323	4,212
Domini Social Equity Fund	28 shares Domini Social Equity Fund	1,001	868
Total mutual funds		141,364	125,059

**Common Collective Trust Fund:**

	43,651 shares T. Rowe Price Stable Value Fund	42,993	43,651
* T. Rowe Price Trust Company			
* T. Rowe Price Trust Company	921 shares T. Rowe Price Equity Index Trust	40,774	33,583
Total common trust fund		83,767	77,234

**Other:**

* Tradelink Investments	Various publicly traded equity investments	323	323
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**\* Participant Loans**

	499 participant loans with various maturities; interest rates range from 5.0% to 10.0%; balances collateralized by participant accounts	3,198	
		\$ 253,900	\$ 219,500

\* Party-in-interest.

\*\* Except for par value and number of participant loans.

See accompanying report of independent registered public accounting firm.

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**WESTERN DIGITAL CORPORATION 401(K) PLAN  
INDEX TO EXHIBITS**

<b>Exhibit</b>	<b>Description</b>	<b>Sequentially Numbered Page</b>
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