

WESTERN DIGITAL CORP

Form DEF 14A

October 04, 2005

**Table of Contents**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- 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):

- Fee not required.
  - 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:
    - (5) Total fee paid:
  - Fee paid previously with preliminary materials.
  - 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:
-

**Table of Contents**

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders to be held at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626 on Thursday, November 17, 2005, at 10:00 a.m., local time. Your Board of Directors and management look forward to welcoming you.

The Annual Meeting of Shareholders is being held for the following purposes:

To elect nine directors to serve until the 2006 Annual Meeting of Shareholders of the Company and until their successors are duly elected and qualified;

To approve the Western Digital Corporation 2005 Employee Stock Purchase Plan;

To approve an amendment to the Company's 2004 Performance Incentive Plan that would increase by 13,000,000 the number of shares of common stock available for issuance under the plan;

To ratify the appointment of KPMG LLP as independent accountants for the Company for the fiscal year ending June 30, 2006; and

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

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR EACH OF THE NINE DIRECTOR NOMINEES NAMED IN PROPOSAL 1 AND FOR EACH OF THE OTHER THREE PROPOSALS.**

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.

Matthew E. Massengill  
*Chairman of the Board*

October 4, 2005

---

Table of Contents

**20511 Lake Forest Drive  
Lake Forest, California 92630-7741**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held On November 17, 2005**

To the Shareholders of  
WESTERN DIGITAL CORPORATION:

The 2005 Annual Meeting of Shareholders of Western Digital Corporation, a Delaware corporation, will be held at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626, on Thursday, November 17, 2005, at 10:00 a.m., local time, for the following purposes:

1. To elect nine directors to serve until the 2006 Annual Meeting of Shareholders of the Company and until their successors are duly elected and qualified;
2. To approve the Western Digital Corporation 2005 Employee Stock Purchase Plan;
3. To approve an amendment to the Company's 2004 Performance Incentive Plan that would increase by 13,000,000 the number of shares of common stock available for issuance under the plan;
4. To ratify the appointment of KPMG LLP as independent accountants for the Company for the fiscal year ending June 30, 2006; and
5. To transact such other business as may properly come before the Annual 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 may be properly adjourned or postponed.

Only shareholders of record at the close of business on September 30, 2005 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

By Order of the Board of Directors

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

Lake Forest, California  
October 4, 2005

**ALL SHAREHOLDERS 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 THE COMPANY 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 SHAREHOLDER 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).**

---

## TABLE OF CONTENTS

|   | <b>Page</b> |
|---|-------------|
| <u>Proxy Statement</u>  | 1           |
| <u>Voting</u>   | 1           |
| <u>Security Ownership by Principal Shareholders and Management</u>  | 3           |
| <u>Proposal 1: Election of Directors</u>  | 5           |
| <u>Nominees for Election</u>  | 5           |
| <u>Corporate Governance</u>   | 7           |
| <u>Director Compensation</u>  | 11          |
| <u>Executive Compensation</u>   | 14          |
| <u>Report of the Compensation Committee</u>   | 14          |
| <u>Summary Compensation Table</u>   | 19          |
| <u>Option/ SAR Grants in Last Fiscal Year</u>   | 22          |
| <u>Aggregated Option/ SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/ SAR Values</u>          | 23          |
| <u>Long-Term Incentive Plans Awards in Last Fiscal Year</u>   | 23          |
| <u>Compensation Committee Interlocks and Insider Participation</u>  | 24          |
| <u>Stock Performance Graph</u>  | 25          |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u>  | 25          |
| <u>Employment Contracts, Termination of Employment and Change-in-Control Arrangements</u>                   | 26          |
| <u>Proposal 2: Approval of the Western Digital Corporation 2005 Employee Stock Purchase Plan</u>            | 29          |
| <u>Proposal 3: Approval of Amendment to the Western Digital Corporation 2004 Performance Incentive Plan</u> | 34          |
| <u>Equity Compensation Plan Information</u>   | 42          |
| <u>Audit Committee</u>  | 44          |
| <u>Report of the Audit Committee</u>  | 44          |
| <u>Proposal 4: Ratification of Appointment of Independent Public Accountants</u>                            | 46          |
| <u>Shareholder Proposals for 2006</u>   | 47          |
| <u>Annual Report</u>  | 47          |
| <u>Other Matters</u>  | 48          |
| <u>Delivery of Documents to Shareholders Sharing an Address</u>   | 48          |
| <u>Voting Via the Internet or by Telephone</u>  | 48          |
| <u>Expenses of Solicitation</u>   | 48          |
| Exhibit A   | A-1         |
| Exhibit B   | B-1         |
| Exhibit C   | C-1         |

---

**Table of Contents**

**20511 Lake Forest Drive  
Lake Forest, California 92630-7741**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**November 17, 2005**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Western Digital Corporation, a Delaware corporation, for use at the Company's 2005 Annual Meeting of Shareholders to be held on November 17, 2005, at 10:00 a.m., local time, and at any and all adjournments or postponements of the Annual Meeting. The Annual Meeting will be held at The Westin South Coast Plaza located at 686 Anton Boulevard, Costa Mesa, California 92626. This Proxy Statement and the accompanying form of proxy are first being mailed to shareholders on or about October 12, 2005.

**VOTING**

September 30, 2005 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. On the record date, 215,687,733 shares of the Company's common stock were outstanding. Each share is entitled to one vote on any matter that may be presented for consideration and action by the shareholders at the Annual Meeting. These shares include: (1) shares held directly in your name as the shareholder of record, and (2) shares held for you as the beneficial owner through a stockbroker, trustee or other nominee.

Most shareholders hold their shares through a broker, trustee or other nominee rather than directly in their own name. If you do hold shares directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered the shareholder of record with respect to those shares and these proxy materials are being sent directly to you by the Company. As a shareholder 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. The Company has 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 these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee 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 a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares in person at the Annual Meeting.

The holders of a majority of the 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.

Each proxy will be voted FOR election of each of the nine director nominees named in Proposal 1 and FOR each the following three proposals: (1) approval of the Western Digital Corporation 2005 Employee

---

**Table of Contents**

Stock Purchase Plan, (2) approval of an amendment to the Western Digital Corporation 2004 Performance Incentive Plan, and (3) ratification of the appointment of KPMG LLP as the Company's independent accountants for the fiscal year ending June 30, 2006, except that if a shareholder has submitted a proxy or voting instruction card with different voting instructions, the shares will be voted according to the shareholder's direction.

Any shareholder has the power to revoke his or her proxy or voting instructions at any time before the Annual Meeting. If you are a shareholder of record, you may revoke your proxy by submitting a written notice of revocation to the Secretary of the Company, 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 shareholder 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.

For purposes of Proposal 1, the nine nominees receiving the greatest number of votes represented by shares of the Company's common stock in person or by proxy and entitled to vote at the Annual Meeting will be elected. Because directors are elected by plurality, abstentions and broker non-votes will be entirely excluded from the vote and will have no effect on the election of directors. Proposals 2, 3 and 4 require the affirmative approval of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting. For these purposes, abstentions are treated as shares present or represented and entitled to vote at the Annual Meeting, so abstaining has the same effect as a negative vote. However, 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 are not deemed to be entitled to vote for the purpose of determining whether shareholders have approved that matter and, therefore, will not be counted in determining the outcome of the vote on that matter. If you are a beneficial owner, please note that brokers, trustees and other nominees do not have discretionary authority to vote on your behalf for the adoption of the Western Digital Corporation 2005 Employee Stock Purchase Plan as described in Proposal 2 or the amendment to the Western Digital Corporation 2004 Performance Incentive Plan as described in Proposal 3. As a result, if you do not submit voting instructions to your broker, trustee or other nominee, your shares will not be considered entitled to vote for purposes of determining whether Proposal 2 or Proposal 3 has been approved by shareholders and will not be counted in determining the outcome of Proposal 2 or Proposal 3. All other proposals discussed in this Proxy Statement are considered routine and may be voted upon by your broker, trustee or nominee if you do not give instructions.

**Table of Contents****SECURITY OWNERSHIP BY PRINCIPAL SHAREHOLDERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of the Company's common stock, as of September 30, 2005, by (1) each person known by the Company to own beneficially more than 5% of the outstanding shares of the Company's common stock, (2) each director and each nominee for election as a director of the Company, (3) each of the executive officers named in the Summary Compensation Table below, and (4) all current directors and executive officers as a group. This table is based on information supplied to the Company by the executive officers, directors and principal shareholders or included in a Schedule 13G filed with the Securities and Exchange Commission.

| <b>Beneficial Owner</b>   | <b>Amount and<br/>Nature of<br/>Beneficial<br/>Ownership(1)</b> | <b>Percent<br/>of<br/>Class(2)</b> |
|---|---|------------------------------------|
| <i>Greater than 5% Shareholders:</i>                            |   |                                    |
| FMR Corp.<br>82 Devonshire Street, Boston, MA 02109(3)          | 26,728,290  | 12.4%                              |
| <i>Directors:</i>   |   |                                    |
| Peter D. Behrendt(4)(5)   | 92,818  | *                                  |
| Kathleen A. Cote(4)   | 55,000  | *                                  |
| Henry T. DeNero(4)  | 113,541   | *                                  |
| William L. Kimsey(4)  | 54,375  | *                                  |
| Michael D. Lambert(4)   | 52,438  | *                                  |
| Roger H. Moore(4)   | 35,000  | *                                  |
| Thomas E. Pardun(4)(6)  | 65,000  | *                                  |
| <i>Executive Officers:</i>                                      |   |                                    |
| Matthew E. Massengill(7)(8)                                     | 1,672,069   | *                                  |
| Arif Shakeel(7)(8)  | 1,734,259   | *                                  |
| Stephen D. Milligan(8)  | 371,382   | *                                  |
| Hossein M. Moghadam(8)  | 110,566   | *                                  |
| Raymond M. Bukaty(8)  | 408,429   | *                                  |
| All Directors and Executive Officers as a group (13 persons)(9) | 4,970,882   | 2.3%                               |

\* Represents less than 1% of the outstanding shares of the Company's common stock.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Unless otherwise noted, and subject to applicable community property laws, each individual has sole voting and investment power with respect to the shares indicated. Shares subject to options currently exercisable or exercisable within 60 days after September 30, 2005 are deemed outstanding for computing the share amount and the percentage ownership of the person holding such stock options, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.
- (2) Applicable percentage ownership is based on 215,687,733 shares of the Company's common stock outstanding as of September 30, 2005.
- (3) According to a Schedule 13G filed jointly by FMR Corp., Edward C. Johnson 3d and Abigail P. Johnson with the Securities and Exchange Commission on February 14, 2005, the parties reported the beneficial ownership of 26,728,290 shares of the Company's common stock and further reported that (i) Fidelity Management &



Research Company, a wholly-owned subsidiary of FMR Corp., was the beneficial owner of 23,267,860 shares of the Company's common stock as a result of acting as investment advisor to various registered investment companies (the Fidelity Funds ) (the power to vote such shares resides solely with the boards of trustees of the Fidelity Funds, while the power to dispose of such shares resides with Mr. Johnson, FMR Corp., and the Fidelity Funds); (ii) Fidelity

**Table of Contents**

Management Trust Company ( Fidelity Management ), a bank that is wholly-owned by FMR Corp., was the beneficial owner of 2,684,490 shares of the Company's common stock in its capacity as investment manager of institutional accounts (and each of Mr. Johnson and FMR Corp., through its control of Fidelity Management, has the sole dispositive power and the sole voting power with respect to such shares); (iii) Strategic Advisers, Inc., a wholly-owned subsidiary of FMR Corp., was the beneficial owner of 2,540 shares of the Company's common stock in its capacity as investment advisor to individuals; and (iv) Fidelity International Limited ( FIL ), a provider of investment advisory and management services, of which Mr. Johnson is chairman but which is a separate corporate entity from FMR Corp., was the beneficial owner of 773,400 shares of the Company's common stock. The Schedule 13G indicates that members of Mr. Johnson's family are the predominant owners of Class B shares of FMR Corp. representing 49% of the voting power of FMR Corp. and that all Class B shareholders have entered into a shareholders' agreement under which all Class B shares will be voted in accordance with the majority vote of Class B shares. As such, the Schedule 13G indicates that members of Mr. Johnson's family may be deemed to be members of a controlling group with respect to FMR Corp. The Schedule 13G also indicates that FMR Corp. and FIL are of the view that they are not acting as a group and that they are not otherwise required to attribute beneficial ownership of the Company's common stock to one another.

- (4) Includes shares of the Company's common stock that may be acquired within 60 days after September 30, 2005 through the exercise of stock options as follows: Mr. Behrendt (70,937), Ms. Cote (55,000), Mr. DeNero (110,000), Mr. Kimsey (54,375), Mr. Lambert (45,938), Mr. Moore (35,000), and Mr. Pardun (60,000). Does not include shares representing deferred stock units credited to accounts in the Company's Deferred Compensation Plan as of September 30, 2005, as to which participants currently have no voting or investment power, as follows: Mr. Behrendt (5,759), Ms. Cote (31,309), Mr. DeNero (45,487), Mr. Kimsey (4,828), Mr. Moore (57,567), and Mr. Pardun (19,851).
- (5) Includes 750 shares of the Company's common stock held by Mr. Behrendt's sons.
- (6) Includes 5,000 shares of the Company's common stock held in a family trust.
- (7) Mr. Massengill and Mr. Shakeel are also directors of the Company.
- (8) Includes shares of the Company's common stock that may be acquired within 60 days after September 30, 2005 through the exercise of stock options as follows: Mr. Massengill (971,105), Mr. Shakeel (162,500), Mr. Milligan (133,063), Dr. Moghadam (60,312) and Mr. Bukaty (176,138).
- (9) Includes 2,025,299 shares of the Company's common stock that may be acquired within 60 days after September 30, 2005 through the exercise of stock options by the Company's directors, the Named Executive Officers and the Company's other executive officer. Does not include the 164,801 shares of the Company's common stock representing deferred stock units as described in footnote 4 above.

**Table of Contents**

**PROPOSAL 1  
ELECTION OF DIRECTORS**

The Company's directors are elected at each Annual Meeting of Shareholders. Currently, the authorized number of directors of the Company is nine. At the Annual Meeting, nine directors will be elected to serve until the next Annual Meeting of Shareholders and until their successors are elected and qualified. The nominees receiving the greatest number of votes at the Annual Meeting up to the number of nine authorized directors will be elected.

**Nominees for Election**

The nominees for election as directors set forth below are all incumbent directors. Each of the nominees 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 nine persons recommended by the Board. If you wish to give specific instructions with respect to the voting 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, shares represented by proxies will be voted for such substitute nominees as may be recommended by the Company's existing Board of Directors, unless the Board chooses to reduce the number of directors serving on the Board. To the Company's knowledge, all the nominees will be available to serve if elected.

**Vote Required and Recommendation of the Board of Directors**

The nine persons receiving the greatest number of votes represented by shares of the Company's common stock in person or by proxy and entitled to vote at the Annual Meeting will be elected.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR ELECTION TO THE BOARD OF DIRECTORS OF EACH OF THE FOLLOWING NOMINEES.**

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

*Matthew E. Massengill*, 44, joined the Company in 1985 and has served in various executive capacities. From August 1999 until October 1999, he served as Co-Chief Operating Officer, and from October 1999 until January 2000, he served as Chief Operating Officer. Mr. Massengill served as President of the Company from January 2000 until January 2002 and as Chief Executive Officer of the Company from January 2000 until October 1, 2005. Mr. Massengill has also been a director of the Company since January 2000 and assumed the additional role of Chairman of the Board of Directors in November 2001. He is also a director of ViewSonic Corporation.

*Arif Shakeel*, 50, has been a director of the Company since September 2004. Mr. Shakeel joined the Company in 1985 as Product Manager, Integrated Drive Electronics. He served in various capacities, including Vice President, Materials Asia, until October 1997. Mr. Shakeel became Senior Vice President of Worldwide Operations in July 1999. In February 2000, he became Executive Vice President and General Manager of Hard Drive Solutions. He was promoted to Executive Vice President and Chief Operating Officer in April 2001 and to President and Chief Operating Officer in January 2002. Mr. Shakeel served as President and Chief Operating Officer until he was promoted to his current position of Chief Executive Officer and President effective October 1, 2005.

*Peter D. Behrendt*, 66, has been a director of the Company 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*, 56, has been a director of the Company since January 2001. Ms. Cote 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



**Table of Contents**

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. and Radview Software Ltd.

*Henry T. DeNero*, 59, has been a director of the Company 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 Banta Corporation, Digital Insight Corporation, PortalPlayer, Inc., THQ, Inc. and Vignette Corp.

*William L. Kimsey*, 63, has been a director of the Company 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*, 58, has been a director of the Company since August 2002. From 1996 until he retired in May 2002, Mr. Lambert 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 Chairman of the Board of Vignette Corp.

*Roger H. Moore*, 63, has been a director of the Company since June 2000. Mr. Moore 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 a member of the Board of Directors 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. He is also a director of Arbinet-thexchange, Inc., Consolidated Communications Holdings, Inc., Tut Systems, Inc., and Verisign, Inc.

*Thomas E. Pardun*, 61, has been a director of the Company since 1993. Mr. Pardun served as Chairman of the Board of Western Digital Corporation 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. Mr. Pardun is also a director of Exabyte Corporation and Occam Networks, Inc.

**Table of Contents****Corporate Governance**

**Corporate Governance Guidelines and Code of Business Ethics.** The Board of Directors has adopted Corporate Governance Guidelines, which provide the framework for the governance of the Company and represent the Board's current views with respect to selected corporate governance issues considered to be of significance to shareholders. The Board of Directors has also adopted a Code of Business Ethics that applies to all of its directors, employees and officers, including, but not limited to, the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer and the Controller of the Company. The current versions of the Corporate Governance Guidelines and the Code of Business Ethics are available on the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com) and are available in print to any shareholder who delivers a written request to the Secretary of the Company at the Company's principal executive offices. In accordance with rules adopted by the Securities and Exchange Commission and the New York Stock Exchange, the Company intends to disclose future amendments to certain provisions of the Code of Business Ethics, or waivers of such provisions granted to executive officers and directors, on the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com).

**Director Independence.** The Board has reviewed and discussed information provided by the directors and the Company with regard to each director's business and personal activities as they may relate to the Company or the Company's management. Based on its review of this information and all other relevant facts and circumstances, the Board of Directors has affirmatively determined that, except for serving as a director of the Company, none of Messrs. Behrendt, DeNero, Kimsey, Lambert, Moore, Pardun or Ms. Cote has any relationship, material or immaterial, with the Company either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company, and that each of such directors qualifies as independent as defined by the corporate governance listing standards of the New York Stock Exchange. Mr. Massengill and Mr. Shakeel are both full-time, executive-level employees of the Company; therefore, Mr. Massengill and Mr. Shakeel are not independent as defined by the corporate governance listing standards of the New York Stock Exchange.

**Committees**

The Board of Directors has standing Executive, Audit, Compensation, Governance and Equity Awards Committees. The Governance Committee, among other things, performs functions similar to a nominating committee. The membership of these committees is usually determined at the organizational meeting of the Board held immediately after the annual meeting of shareholders. The current members of the committees are identified in the following table:

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

(1) The Chairman of the Governance Committee also serves as the Company's lead outside director and presides at all executive sessions of non-management directors.

**Executive Committee.** The Executive Committee operates pursuant to a written charter that is available on the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com). As described in further detail in the

written charter of the Executive Committee, between meetings of the Board, the Executive



**Table of Contents**

Committee may exercise all of the powers of the Board (except those powers expressly reserved to the Board 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.

*Audit Committee.* The 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 Mr. DeNero is an audit committee financial expert as defined by rules of the Securities and Exchange Commission. The Board 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 the Company's Audit Committee.

The Audit Committee operates pursuant to a written charter that is attached as Exhibit A to this Proxy Statement and that is also available on the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com) and is available in print to any shareholder who delivers a written request to the Secretary of the Company at the Company's 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 the Company's 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 Company's independent accountants of the Company's 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 the Company's earnings press releases; (9) periodic review of the adequacy of the Company's accounting and financial personnel resources; (10) periodic review and discussion of the Company's internal control over financial reporting and review and discussion with the Company's principal internal auditor of the scope and results of the Company's internal audit program; (11) review and discussion of the Company's 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 received by the Company 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 the Company and other material contingent liabilities; and (15) review of any other matters relative to the audit of the Company's accounts and preparation of its financial statements that the Committee deems appropriate.

*Compensation Committee.* The 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 the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com) and is available in print to any shareholder who delivers a written request to the Secretary of the Company at the Company's principal executive offices. As described in further detail in the written charter of the Compensation Committee, the Compensation Committee assists the Board of Directors and the Company's management in defining the Company's executive compensation policy and in carrying out various responsibilities relating to compensation of the Company's executive officers and directors, including: (1) evaluating and approving compensation for the Chief Executive Officer and evaluating and recommending to the Board compensation for all other executive officers; (2) reviewing and making recommendations to the Board regarding non-employee director compensation; (3) overseeing the development and administration of the Company's 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 that is being presented to



**Table of Contents**

shareholders for approval under Proposal 2; and (4) reviewing and making recommendations to the Board regarding changes to the Company's benefit plans. The Compensation Committee is also responsible for preparing the annual report on executive compensation included in this Proxy Statement.

*Governance Committee.* The 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 the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com) and is available in print to any shareholder who delivers a written request to the Secretary of the Company at the Company's 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 the size and composition of the Board and the size, composition and functions of the Board committees; (2) developing and recommending to the Board a set of criteria for Board membership; (3) identifying, evaluating, attracting, and recommending director candidates for membership on the Board, including directors for election at the annual meeting of shareholders; (4) making recommendations to the Board on such matters as the retirement age, tenure and removal of directors; (5) managing the Board performance review process and reviewing the results with the Board on an annual basis; (6) overseeing the evaluation of the Chief Executive Officer by the Board and the Compensation Committee; (7) developing and recommending to the Board a set of corporate governance principles; and (8) reviewing and making recommendations to the Board regarding proposals of shareholders that relate to corporate governance.

Whenever a vacancy occurs on the 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. In addition, the Governance Committee is responsible for recommending nominees for election or re-election to the Board at each annual meeting of shareholders. The Governance Committee is authorized to use any methods it deems appropriate for identifying candidates for Board membership, including considering recommendations from shareholders. 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 2005.

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, the Company's technology and other elements relevant to the success of a company such as the Company) and achievements, all of which are viewed in the context of the overall composition of the Board; 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; and representation of the long-term interests of the shareholders as a whole and a diversity of backgrounds and expertise which are most needed and beneficial to the Board and the Company.

A shareholder may recommend a director candidate to the Governance Committee by delivering a written notice to the Secretary of the Company at the Company's principal executive offices and including the following in the notice: (1) the name and address of the shareholder as they appear on the Company's books or other proof of share ownership; (2) the class and number of shares of the Company's common stock that are beneficially owned by the shareholder as of the date written notice is given; (3) a description of all arrangements or understandings between the shareholder and the director candidate and any other person(s) pursuant to which the recommendation or nomination is to be made by the shareholder; (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 the Company's common stock that are beneficially owned by the director candidate; (7) the consent of the director candidate to serve as a director of the Company 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



**Table of Contents**

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 director of the Company.

The Governance Committee will evaluate director candidates recommended by shareholders for election to the 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 shareholder-recommended candidate is suitable for Board membership, it will include the candidate in the pool of candidates to be considered for nomination upon the occurrence of the next Board vacancy or in connection with the next annual meeting of shareholders. Shareholders who are recommending candidates for consideration by the Board in connection with the next annual meeting of shareholders should submit their written recommendation no later than June 1 of the year of that meeting.

Shareholders who wish to nominate a person for election as a director in connection with an annual meeting of shareholders (as opposed to making a recommendation to the Governance Committee as described above) must deliver written notice to the Company's Secretary within the time periods set forth on page 47 below under

Shareholder Proposals for 2006 and in the manner further described in Section 2.11(a) of the Company's Bylaws.

*Equity Awards Committee.* The Equity Awards Committee was established by the Board of Directors in March 2005 and has been delegated limited authority to approve and establish the terms of stock options and restricted stock awards granted to eligible participants under the 2004 Performance Incentive Plan. Recipients of awards approved by the Equity Awards Committee must be employees on the payroll of the Company or its subsidiaries as of the grant date and generally exclude the Company's executive and Section 16 officers. The Equity Awards Committee has limited discretion to specify the terms and conditions of awards it approves, subject to guidelines pre-established by the Board of Directors. Further, the number of awards that may be approved by the Equity Awards Committee to any one individual or during any six-month period are subject to maximum limits prescribed by the Board of Directors. The Equity Awards Committee is required to report periodically to the Compensation Committee of the Board of Directors.

*Meetings and Attendance.* During fiscal 2005, there were six meetings of the Board, fourteen meetings of the Audit Committee, nine meetings of the Compensation Committee, no meetings of the Executive Committee and four meetings of the Governance Committee. The Equity Awards Committee did not meet or act by written consent during any of fiscal 2005. Each of the directors attended 75% or more of the total number of meetings of the Board and the meetings of the committees of the Board on which he or she served during the period that he or she served.

The Company strongly encourages each director to attend the Company's annual meeting of shareholders. All of the Company's directors attended last year's annual meeting of shareholders.

*Communicating with Directors.* The Board provides a process for shareholders to send communications to the Board, or to individual directors or groups of directors. In addition, interested parties may communicate with the lead director (who presides over executive sessions of the non-management directors) or with the non-management directors as a group. The Board recommends that shareholders and other interested parties initiate any communications with the Board (or individual directors or groups of directors) in writing and send them in care of the Company's 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 in reviewing and responding to shareholder and interested party communications in an appropriate manner. The name of any specific intended Board recipient or recipients should be clearly noted in the communication (including whether the communication is intended only for the Company's lead director or non-management directors as a group). The Board has instructed the Secretary to forward such correspondence only to the intended recipients; however, the Board 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 Board recipient's consideration. In such cases, some of the correspondence may be forwarded elsewhere within the Company for review and possible response.

**Table of Contents****Director Compensation**

*Director Fees.* Non-employee directors receive an annual retainer of \$40,000 in January, or if they join the Board at a later date, they receive a proportion of the annual fee corresponding to the period for which they serve. The non-employee directors also receive compensation of \$2,500 for each session during which they attend a Board meeting, \$1,500 for any and all committee meetings attended, \$1,250 for each Board meeting and \$750 for each committee meeting held by telephone conference, and reimbursement of reasonable out-of-pocket expenses incurred in attending each meeting. In addition, the chairman of each committee of the Board receives an annual retainer of \$5,000. Mr. Massengill and Mr. Shakeel, who are employees of the Company, do not receive any additional compensation for their service on the Board or any Board committee.

*Non-Employee Directors Stock-for-Fees Plan.* Under the Company's Amended and Restated Non-Employee Directors Stock-for-Fees Plan, each non-employee director may elect to receive shares in lieu of any or all of (1) the \$40,000 annual retainer fee otherwise payable to him or her in cash for that calendar year, and/or (2) the additional \$5,000 chairman retainer, and/or (3) the meeting attendance fees otherwise payable to him or her in cash for that calendar year. At the time of the election for a particular calendar year, a non-employee director may also elect to defer the receipt of any cash or stock compensation to be paid during the calendar year. A deferral will not change the form (cash or shares) in which the fee is to be paid at the end of the deferral period. Under the Deferred Compensation Plan and the Non-Employee Directors Stock-for-Fees Plan, the Company pays a 25% premium to each non-employee director who elects to defer annual retainer or meeting fees to be received in common stock. The number of shares of common stock payable is determined by dividing the amount of the cash fee the director would have received by the fair market value of the common stock on the date the cash fee would have been paid. The aggregate number of shares issued under the Non-Employee Directors Stock-for-Fees Plan in each of the last three fiscal years was: (1) 15,299 shares in fiscal 2005, which includes 13,454 shares of common stock previously deferred under the Deferred Compensation Plan, (2) 3,392 shares in fiscal 2004, and (3) 4,804 shares in fiscal 2003. An aggregate of 164,801 shares representing deferred stock units were credited to accounts in the Company's Deferred Compensation Plan as of September 30, 2005.

The maximum aggregate number of shares of the Company's common stock that may be issued under the Non-Employee Directors Stock-for-Fees Plan is 400,000 shares, subject to adjustments for stock splits and similar events. The Board has the power to suspend, discontinue or, subject to shareholder approval if required by applicable law or regulation, amend the Non-Employee Directors Stock-for-Fees Plan at any time.

*Deferred Compensation Plan.* Under the Company's Deferred Compensation Plan, all directors and employees selected for participation by the Compensation Committee are permitted to defer payment of compensation by the Company. Non-employee directors who elect to participate are permitted to defer between a minimum of \$2,000 per calendar year and a maximum of 100% of their compensation payable under the Non-Employee Directors Stock-for-Fees Plan. The deferred stock units carry no voting or investment power. Each participant may elect one or more measurement funds to be used to determine additional amounts to be credited to his or her account balance, including certain mutual funds and a declared rate fund that is credited interest at a fixed rate for each plan year. The fixed interest rate is set prior to the beginning of the plan year. The fixed interest rate for calendar year 2005 is 5.50%, for calendar year 2004 was 6.00%, and for calendar year 2003 was 6.75%.

**Table of Contents**

Pursuant to the terms of the Deferred Compensation Plan, non-employee directors' deferred compensation in the last three fiscal years was as follows:

| <b>Non-Employee Director</b> | <b>2005<br/>Deferred<br/>Stock<br/>Units(1)</b> | <b>2005<br/>Cash<br/>Deferred(2)</b> | <b>2004<br/>Deferred<br/>Stock<br/>Units(1)</b> | <b>2004 Cash<br/>Deferred(2)</b> | <b>2003<br/>Deferred<br/>Stock<br/>Units(1)</b> | <b>2003<br/>Cash<br/>Deferred(2)</b> |
|------------------------------|---|--------------------------------------|---|----------------------------------|---|--------------------------------------|
| Peter D. Behrendt            | 0   | \$ 0                                 | 2,120   | \$ 28,750                        | 3,639   | \$ 23,000                            |
| Kathleen A. Cote             | 0   | 17,250                               | 4,000   | 41,688                           | 8,166   | 13,800                               |
| Henry T. DeNero              | 0   | 0                                    | 0   | 0                                | 6,785   | 0                                    |
| William L.<br>Kimsey         | 0   | 0                                    | 2,120   | 23,000                           | 2,708   | 13,886                               |
| Michael Lambert              | 0   | 0                                    | 0   | 0                                | 0   | 0                                    |
| Roger H. Moore               | 1,912   | 0                                    | 7,376   | 0                                | 10,483  | 0                                    |
| Thomas E.<br>Pardun          | 2,306   | 0                                    | 2,120   | 28,750                           | 3,639   | 36,225                               |
| <b>Total</b>                 | <b>4,218</b>                                    | <b>\$ 17,250</b>                     | <b>17,736</b>                                   | <b>\$ 122,188</b>                | <b>35,420</b>                                   | <b>\$ 86,911</b>                     |

- (1) Includes the 25% premium, in the form of shares of the Company's common stock, received under the Non-Employee Directors Stock-for-Fees Plan by each non-employee director who elected to defer his or her annual retainer or meeting fees to be received in shares of the Company's common stock.
- (2) Includes a 15% premium, in the form of cash, received prior to calendar year 2005 under the Non-Employee Directors Stock-for-Fees Plan by each non-employee director who elected to defer his or her annual retainer or meeting fees to be received in cash. After December 31, 2004, cash deferrals by non-employee directors are no longer eligible for a premium payment.

*Non-Employee Director Option Grant Program.* Under the Company's Non-Employee Director Option Grant Program adopted under the Western Digital Corporation 2004 Performance Incentive Plan, non-employee directors are automatically granted an option to purchase 75,000 shares of the Company's common stock upon initial election or appointment to the Board at an exercise price per share equal to the fair market value of the Company's common stock on the date of initial election or appointment ( Initial Option ). After a non-employee director joins the Board, immediately following each annual meeting of shareholders of the Company, if he or she has been re-elected as a director at that annual meeting, the non-employee director will automatically receive another option to purchase 10,000 shares of the Company's common stock at an exercise price per share equal to the fair market value of common stock on the date of grant ( Additional Option ). Both Initial Options and Additional 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. Initial Options and Additional Options vest only if the optionee has remained a director for the entire period from the grant date to the vesting date, unless the director retired after reaching age 55, in which case all options immediately vest and shall be exercised by the director before the earlier of (i) three years after the director's retirement or (ii) the expiration of the original term of the option, provided, in each case, the director has given at least forty-eight months of service to the Company and does not render services to a competitor of the Company. Shares of Company common stock that may be issued upon the exercise of stock options granted under the Non-Employee Director Option Grant Program are subject to the share limits specified in the Company's 2004 Performance Incentive Plan.

*Non-Employee Directors Restricted Stock Unit Plan.* The Company has a Restricted Stock Unit Plan for Non-Employee Directors under which restricted stock units ( RSUs ) are granted to the Company's non-employee directors. Pursuant to this plan, non-employee directors were granted 2,100 RSUs upon adoption of the plan, 2,100 RSUs each January 1 thereafter through January 1, 2004, and are automatically granted an additional 4,527 RSUs each January 1 beginning January 1, 2005. If a new non-employee director is appointed to the Board, the Company will prorate the first 4,527 RSU grant to the director. All RSUs vest 100% on the third anniversary of the grant. However, if a director served as a director for at least 48 continuous months and is at least 55 years old when such director ceases to be a director (a Retired Director ), all unvested RSUs vest immediately upon the director's termination. If a director ceases to be a director for any reason (except removal) prior to becoming eligible to be a Retired Director, then all of the unvested RSUs granted in the first twelve months prior to termination terminate without vesting, 1/3 of all unvested RSUs granted within the



**Table of Contents**

second twelve-month period prior to termination immediately vest and become payable, and 2/3 of all unvested RSUs granted within the third twelve-month period prior to termination immediately vest and become payable. Within 15 days of the vesting of RSUs, the Company will pay the director in cash an amount equal to (i) the product of the number of RSUs vested and (ii) the preceding 45-day average trading price of the Company's common stock as of the date of vesting. However, the payment amount may not exceed 200% of the value of RSUs on the date of the grant, with the value calculated at the preceding 45-day average trading price on the day of the grant.

**Table of Contents**

**EXECUTIVE COMPENSATION**

**The following report of the Company's Compensation Committee addresses the Company's policies for fiscal 2005 as they affected the Company's Chief Executive Officer and its other executive officers, including the Named Executive Officers. This report shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act or to the liabilities of Section 18 of the Securities Exchange Act, nor shall any information in this report be incorporated by reference into any past or future filing under the Securities Act or the Securities Exchange Act, except to the extent the Company specifically requests that it be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Securities Exchange Act.**

**Report of the Compensation Committee**

The Company's executive compensation program is administered by the Compensation Committee of the Board of Directors (the Committee). The Committee is responsible for recommending to the Board all elements of compensation for executive officers and approving the compensation for the Chief Executive Officer. The Committee also reviews and approves various other Company compensation policies and matters, reviews and makes recommendations to the Board regarding non-employee director compensation, and administers the Company's equity and incentive plans, including the 2004 Performance Incentive Plan, the Deferred Compensation Plan, the Incentive Compensation Plan and, if approved by shareholders, the 2005 Employee Stock Purchase Plan that is being submitted to shareholders for approval as described in Proposal 2.

Each member of the Committee is independent within the meaning of the applicable listing standards of the New York Stock Exchange. The Committee has the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist it in the performance of its functions.

***Compensation Philosophy***

The Company's compensation philosophy for executive officers is based on the belief that the interests of the executives should be closely aligned with the Company's shareholders. To support this philosophy, a significant 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 the Company's shareholders. The Company's 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 the Company, as well as the business group for which each 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 which drive the performance of the Company's common stock over the long term to further reinforce the linkage between the interests of the shareholders and the executives; and

ensure compensation levels are both externally competitive and internally equitable.

In furtherance of these goals, the Company's executive compensation policies, plans and programs consist of base salary, annual incentive compensation, long-term retention/incentive awards, including stock options, performance shares and restricted stock grants, a deferred compensation plan and other benefits.

The Committee considers all elements of compensation and the Company's compensation philosophy when determining individual components of pay. The Committee does not follow any principles in a formulaic fashion; rather, the members use their experience and judgment in determining the mix of compensation for each individual. In addition to the experience and knowledge of the Committee and the Company's Human



**Table of Contents**

Resources staff, the Committee utilizes the services of independent human resources consultants who provide advice and counsel, as well as competitive data from independent survey sources of peer companies in competition for similar management talent. The surveys include data from direct competitors of the Company and from other companies in the high-technology industry with similar size and performance characteristics. Most of the companies included in this analysis are also included in the Dow Jones US Technology, Hardware and Equipment Index (see Stock Performance Graph at page 25).

While there is no specific formula that is used to set pay in relation to this market data, executive officer base salary and individual bonus target amounts, when combined, are generally equivalent to the median total cash compensation level for comparable jobs in the marketplace. However, depending upon the Company's business groups performance as measured against predetermined financial and non-financial goals, amounts paid under the Company's performance-based compensation program may lead to total cash compensation levels that are lower or higher than the median levels for comparable jobs. The Company intends to provide a total compensation opportunity for executive officers that is above average, but with an above-average amount of the total compensation opportunity at risk and dependent upon Company performance.

***Executive Compensation Components***

The Company's executive compensation package consists primarily of the following components:

**Base Salary.** Executive officer base salaries are reviewed annually, and base salary levels are generally targeted at or below the median of competitive data. The base salaries of individual executive officers can and do vary from this salary benchmark based on such factors as the competitive environment, the executive's experience level and scope of responsibility, the Company's financial condition, current performance, future potential and the overall contribution of the executive. The Committee exercises its judgment based on all the factors described above in making its decisions. No specific formula is applied to determine the weight of each criterion.

**Annual Incentive Compensation.** The Company's Incentive Compensation Plan (the ICP) formally links cash bonuses for executive officers and other participating employees to the Company's semiannual operating performance. The Committee establishes target awards under the ICP for each executive officer, expressed as a percentage of the executive's semiannual base salary. The Committee then semiannually establishes operating and/or financial performance goals under the ICP. For each of the first half and second half of fiscal 2005 these goals were earnings per share (EPS) and cash flow from operations. The bonus pool payable under the ICP for each semiannual period can vary from 0% to 200% of the aggregate target bonuses, depending upon the Company's performance against the pre-established goals. Individual awards to executive officers can also vary from their targets, depending upon the size of the bonus pool and their individual performance.

**Equity and Other Long-Term Incentive Awards.** The Committee views the grant of equity-based compensation to be a key long-term incentive reward program. Executive officers, as well as other employees, are eligible to receive periodic grants of incentive stock options and non-qualified stock options, restricted stock, performance shares and other cash or equity-based incentive awards pursuant to the Company's 2004 Performance Incentive Plan. Vesting schedules are designed to balance the goals of encouraging retention of executive officers and rewarding long-term performance and commitment to the Company. While all executive officers are eligible, the type of award as well as the size of the grant each executive officer receives, is determined by the Committee in consultation with the Vice President, Human Resources and the Chief Executive Officer (except in the case of his own equity and other long-term incentive awards), and ratified by the Board. In the case of the Chief Executive Officer's compensation, any and all awards are approved by the Committee.

The amount of each executive officer's award is determined by the Committee based upon the executive's individual performance, the executive's current compensation package, the value of the executive's unvested stock options and restricted stock, comparable company and competitive company practices, and the Committee's appraisal of the executive's anticipated long-term future contribution to the Company.

**Table of Contents**

*Stock Options:* The Committee believes that the grant of stock options to executive officers with an exercise price per share equal to the fair market value of the Company's common stock on the date of grant is an effective incentive for executive officers to create value for the Company's shareholders and is an effective means of motivating, retaining and rewarding executives who are in a position to contribute to the Company's long-term growth and profitability. The 2004 Performance Incentive Plan prohibits the repricing of stock options.

*Restricted Stock:* The Committee considers awards of restricted stock to be the key component of compensation when long-term retention is desired. By their nature, restricted stock awards create both retention and shareholder alignment and, therefore, can be a useful compensation tool. Before granting restricted stock awards, the Committee considers various factors primarily relating to the responsibilities of the individual executive officers, their expected future contributions and the individual executive officer's unvested long-term position.

*Performance Shares:* As noted above, the Committee views long-term equity-based compensation as an important means of rewarding and motivating its executive officers who are in a position to contribute to the Company's long-term success. Performance shares are similar to restricted stock awards, except that performance shares are subject to performance-based vesting requirements in addition to or in lieu of the time-based vesting requirements typically imposed on restricted stock awards. The performance objectives established with respect to a performance share award may be based on Company performance, the performance of a specific business unit, or individual objectives.

*Other Long Term Incentive Awards:* From time to time, the Company may grant cash and equity awards to key employees whose retention is deemed critical to the Company's future success. The purpose of these awards is to retain critical talent by providing a significant incremental opportunity for capital accumulation and to focus participants on increasing the value of the Company's common stock. All equity awards are granted pursuant to the Company's 2004 Performance Incentive Plan and all cash awards are documented by individual agreements with the executive. The awards vest in accordance with schedules designed to maximize the retention value of the awards to the executives receiving the awards.

*Benefits.* Benefits offered to executive officers serve a different purpose than do the other elements of total compensation. In general, they provide a safety net of protection against the financial catastrophes that can result from illness, disability or death. Benefits offered to executives are largely those that are offered to the general employee population, with some variation, primarily with respect to eligibility for participation in the non-qualified deferred compensation plan, the availability of expanded medical benefits, and the availability of various limited allowances, including life insurance, financial planning and club memberships. The Committee believes that the benefits offered to executive officers generally are competitive. From time to time, the Company's Human Resources Department obtains data to help ensure that such benefit plans and programs remain competitive and reports its findings to the Committee.

***Awarding Incentive Compensation for Fiscal 2005***

The Committee believes that the Company delivered exceptional financial performance during fiscal 2005, and as a result the value of the Company's common stock rose from \$8.40 on July 2, 2004 to \$13.76 on July 1, 2005. This exceptional financial performance is highlighted by:

a 30% year over year increase in earnings per share (from \$0.70 to \$0.91),

a 142% year over year increase in cash flow from operations (from \$190.0 million to \$460.7 million), and

year over year revenue growth of 19% (from \$3,046.7 million to \$3,638.8 million).

Because the Company exceeded all of the financial and other performance goals under the ICP in fiscal 2005, ICP cash awards equivalent to approximately 150% of the target awards were made to executive officers for the six months ended December 31, 2004 and ICP cash awards equivalent to approximately 175% of the target awards were made to executive officers for the six months ended July 1, 2005.



**Table of Contents**

Historically, the Company has granted stock options with an exercise price equal to the fair market value per share of the Company's common stock on the date of grant as its primary long-term retention vehicle. With the assistance of outside compensation consultants during the fiscal year, the Committee developed an annual equity award package that focused on certain long-term financial objectives and consisted of stock options, restricted stock and performance shares.

The stock options, restricted stock awards and performance shares granted to the Named Executive Officers in fiscal 2005 are summarized below under *Summary Compensation*, *Option/ SAR Grants in Last Fiscal Year* and *Long-Term Incentive Plans Awards in Last Fiscal Year* beginning at page 24.

In addition, in fiscal 2005, Dr. Moghadam received a long-term incentive award payable in cash upon the satisfaction of specified time-based vesting requirements. The Long-Term Retention Agreement documenting this award is described in further detail under *Employment Contracts, Termination of Employment and Change-in-Control Arrangements* beginning on page 26.

***Chief Executive Officer Compensation***

Mr. Massengill was appointed Chief Executive Officer of the Company in January 2000 and Chairman of the Board of Directors in November 2001. His compensation package has been designed to encourage both short-term and long-term performance of the Company as well as to align his interests with the interests of shareholders. The majority of his compensation, including stock options and other stock-based compensation, annual incentive bonuses and long-term retention awards, is at risk and ultimately based upon the financial performance of the Company. During fiscal 2005, Mr. Massengill did not have an employment contract, but he was and remains subject to the Company's Change of Control Severance Plan and was party to a Long-Term Retention Agreement (both of which are described in *Employment Contracts, Termination of Employment and Change-in-Control Arrangements* beginning on page 26).

The Committee reviews and approves corporate goals and objectives for the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of those goals and objectives and, either as a Committee or together with the other independent directors of the Board, determines and approves the Chief Executive Officer's compensation level. On behalf of the Board, the Governance Committee will, as it and the Committee determine appropriate, provide input to the Committee on the performance of the Chief Executive Officer. The Company's overall performance and Mr. Massengill's individual performance are critical factors in the Committee's determination.

Mr. Massengill's annual base salary at the end of fiscal 2005 was \$800,000, paid bi-weekly. The incentive compensation plan awards paid to Mr. Massengill for fiscal 2005 totaled \$1,300,000. During fiscal 2005, he received a stock option grant to purchase 500,000 shares of the Company's common stock, which vests 25% on the first anniversary of the grant date and 6.25% at the end of each three-month period thereafter through the fourth anniversary of the grant date. During fiscal 2005, Mr. Massengill also received 550,000 shares of restricted stock. A total of 400,000 of these shares vest 50% on July 31, 2006 and 50% on July 31, 2007, while the remaining 150,000 shares vest in equal installments on each of July 31, 2006, 2007 and 2008. Finally, Mr. Massengill received an award of 210,000 performance share units. In addition, on July 1, 2005, the final annual installment representing 45% of the total share units awarded to Mr. Massengill in fiscal 2003 pursuant to his Long-Term Retention Agreement vested, resulting in a cash payment to him of \$5,808,600.

The Committee's decisions regarding the award of stock options, restricted stock and performance share units to Mr. Massengill during fiscal 2005 were based on its positive assessment of his performance and in recognition of his leadership of the Company's exceptional financial success.

On August 25, 2005, Mr. Massengill entered into an Employment Agreement with the Company pursuant to which he relinquished his role as Chief Executive Officer of the Company effective October 1, 2005. Mr. Massengill will still remain a full-time employee of the Company in his position as Chairman of the Board of Directors. Pursuant to his agreement, the entire performance share award granted to Mr. Massengill in fiscal 2005 was cancelled as were 50,000 unvested shares of restricted stock and an aggregate of

**Table of Contents**

206,250 shares of common stock subject to stock options granted to Mr. Massengill that were scheduled to vest after July 31, 2007.

Effective October 1, 2005, the Board of Directors appointed Mr. Shakeel to replace Mr. Massengill as Chief Executive Officer of the Company. Pursuant to an Employment Agreement entered into with Mr. Shakeel on August 25, 2005, effective October 1, 2005, Mr. Shakeel's base salary increased to \$800,000 and his target annual bonus under the ICP will be 100% of his base salary. Mr. Shakeel also received an award grant of 1,250,000 shares of restricted stock of the Company. Subject to Mr. Shakeel's continued employment by the Company, 500,000 of these shares of restricted stock will vest on January 1, 2007 and the remaining 750,000 of these shares of restricted stock will vest on January 1, 2008. In addition, pursuant to the agreement, the entire performance share award granted to Mr. Shakeel in fiscal 2005 was cancelled as were 28,333 unvested shares of restricted stock and 78,125 shares of common stock subject to stock options granted to Mr. Shakeel that were scheduled to vest after December 31, 2007.

***Policy Regarding Section 162(m) of the Internal Revenue Code***

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to the Company's Chief Executive Officer or any of the Company's four other most highly compensated executive officers as of the end of any fiscal year. Certain performance-based compensation, however, is exempt from the Section 162(m) deduction limit. It is the Committee's current intent that, so long as it is consistent with the Company's overall compensation objectives and philosophy, executive compensation will be structured so as to be deductible for federal income tax purposes to the maximum extent possible. The 2004 Performance Incentive Plan has been structured so that any taxable compensation derived pursuant to the exercise of options approved by the Committee and granted under such plans should not be subject to the Section 162(m) deductibility limitations. In addition, the Company's 2005 performance share grants to executive officers are intended to be exempt from the Section 162(m) deductibility limitations. Base salaries, bonuses under the ICP, cash awards and restricted stock awards under the executive retention program do not, however, satisfy all the requirements of Section 162(m) and, accordingly, are not exempt from the Section 162(m) deductibility limitations. Nevertheless, the Committee has determined that these plans and policies are in the best interests of the Company and its shareholders since the plans and policies permit the Company to recognize an executive officer's contributions as appropriate. The Committee will, however, continue to consider, among other relevant factors, the deductibility of compensation when the Committee reviews the Company's compensation plans and policies. The Committee reserves the right to continue to award non-deductible compensation in such circumstances as it deems appropriate.

**COMPENSATION COMMITTEE**

Peter D. Behrendt, Chairman  
 Michael D. Lambert  
 Roger H. Moore

September 20, 2005



**Table of Contents****Summary Compensation Table**

The following table sets forth the compensation paid for fiscal 2005 to the Company's Chief Executive Officer during that period and the four other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2005 (collectively, the "Named Executive Officers").

| Name and<br>Principal Position   | Fiscal<br>Year | Annual Compensation* |                | Long-Term Compensation                 |                                     |                         |            |                                      |
|--|----------------|----------------------|----------------|--|-------------------------------------|-------------------------|------------|--------------------------------------|
|  |                | Salary<br>(\$)       | Bonus<br>\$(1) | Awards                                 |                                     | Payouts                 |            | All<br>Other<br>Compensation<br>(\$) |
|  |                |                      |                | Restricted<br>Stock<br>Awards<br>\$(2) | Underlying<br>Options/SARs**<br>(#) | LTIP<br>Payouts<br>(\$) | Securities |                                      |
| Matthew E.<br>Massengill(3)<br>Chairman and<br>Former<br>Chief Executive<br>Officer                      | 2005           | 776,923              | 1,300,000      | 5,615,500(4)                           | 500,000                             | 5,808,600(5)            | 3,140(6)   |                                      |
|  | 2004           | 726,923(7)           | 0              | 0                                      | 300,000                             | 6,864,200(8)            | 3,184      |                                      |
|  | 2003           | 700,000              | 1,050,000      | 0                                      | 400,000                             | 0                       | 3,140      |                                      |
| Arif Shakeel(9)<br>Chief Executive<br>Officer  | 2005           | 573,077              | 801,375        | 3,522,450(4)                           | 250,000                             | 4,149,000(10)           | 4,201 (6)  |                                      |
|  | 2004           | 571,154(7)           | 0              | 0                                      | 200,000                             | 4,903,000(11)           | 3,776      |                                      |
| and President  | 2003           | 550,000              | 727,500        | 0                                      | 250,000                             | 0                       | 3,710      |                                      |
| Stephen D.<br>Milligan(12)<br>Senior Vice<br>President and<br>Chief Financial<br>Officer                 | 2005           | 345,385              | 405,063(13)    | 1,633,600(4)                           | 54,000                              | 0                       | 2,420(6)   |                                      |
|  | 2004           | 307,154(7)           | 35,000(14)     | 772,500                                | 135,000                             | 0                       | 4,436      |                                      |
| Hossein M.<br>Moghadam(15)<br>Senior Vice<br>President,<br>Research and<br>Development                   | 2005           | 328,846              | 387,500        | 587,004(4)                             | 58,000                              | 0                       | 7,544(6)   |                                      |
| Raymond M.<br>Bukaty<br>Senior Vice<br>President,<br>Administration,<br>General Counsel<br>and Secretary | 2005           | 345,385              | 370,063        | 1,654,020(4)                           | 58,000                              | 0                       | 3,260(6)   |                                      |
|  | 2004           | 324,462(7)           | 0              | 0                                      | 85,000                              | 75,000                  | 3,308      |                                      |
|  | 2003           | 281,539              | 240,500        | 0                                      | 75,000                              | 75,000                  | 3,260      |                                      |

\*

The amount of perquisites and other personal benefits received by each of the Named Executive Officers for the years indicated did not exceed the lesser of \$50,000 or 10% of the individual's total annual salary and bonus, which represents the threshold reporting requirement.

\*\* The Company has not historically granted Stock Appreciation Rights.

- (1) The amounts disclosed in the Bonus column for 2005 and 2003 were all awarded under the Company's Incentive Compensation Plan.
- (2) At the end of fiscal 2005, the aggregate share amount and dollar value of (i) all unvested restricted stock awards granted to the Named Executive Officers (which consist of the unvested portion of restricted stock awards granted to the Named Executive Officers in fiscal 2004 and 2005), and (ii) all performance-based stock awards (assuming target performance) awarded to the Named Executive Officer that were issuable in accordance with the terms of the award (which consist of performance share awards granted to the Named Executive Officers in fiscal 2005 as summarized below under "Long-Term Incentive Plans - Awards in Last Fiscal Year"), were as follows (based on the \$13.76 closing price of the Company's common stock on July 1, 2005):

| Name                  | Unvested Restricted Stock Awards |              | Performance-Based Stock Awards |              |
|-----------------------|----------------------------------|--------------|--------------------------------|--------------|
|                       | # Shares                         | \$ Amount    | # Shares                       | \$ Amount    |
| Matthew E. Massengill | 550,000                          | \$ 7,568,000 | 210,000                        | \$ 2,889,600 |
| Arif Shakeel          | 345,000                          | 4,747,200    | 115,000                        | 1,582,400    |
| Stephen D. Milligan   | 235,000                          | 3,233,600    | 55,000                         | 756,800      |
| Hossein M. Moghadam   | 53,520                           | 736,435      | 20,000                         | 275,200      |
| Raymond M. Bukaty     | 162,000                          | 2,229,120    | 58,000                         | 798,080      |

For Mr. Massengill, the above amounts include 50,000 shares of common stock subject to a restricted stock award that was scheduled to vest after July 31, 2007 and 210,000 shares of common stock subject to a performance share award (assuming target performance) granted to Mr. Massengill in fiscal 2005.

**Table of Contents**

These awards were cancelled on August 25, 2005 pursuant to an employment agreement between Mr. Massengill and the Company.

- (3) Mr. Massengill resigned as Chief Executive Officer of the Company effective October 1, 2005. He remains an executive officer of the Company in his capacity as Chairman of the Board of Directors.
- (4) These restricted stock awards were granted under either the Company's Broad-Based Stock Incentive Plan or the Company's 2004 Performance Incentive Plan and are valued as of the date of grant. If the Company pays dividends, dividends would be payable on these shares of restricted stock at the same rate and time and in the same form in which dividends are payable on other outstanding shares of the Company's common stock. The number, value as of the date of grant and vesting schedules of these restricted stock awards to the Named Executive Officers are as follows:

| <b>Name</b>           | <b># Shares Subject to Restricted Stock Award</b> | <b>Per Share Value at Date of Grant</b> | <b>Vesting Schedule</b>   |
|-----------------------|---|---|---|
| Matthew E. Massengill | 400,000   | \$ 10.21                                | Equal installments on July 31, 2006 and 2007                                    |
|                       | 150,000   | 10.21                                   | Equal installments on July 31, 2006, 2007 and 2008                              |
| Arif Shakeel          | 260,000   | 10.21                                   | Equal installments on July 31, 2006 and 2007                                    |
|                       | 85,000  | 10.21                                   | Equal installments on July 31, 2006, 2007 and 2008                              |
| Stephen D. Milligan   | 120,000   | 10.21                                   | Equal installments on July 31, 2006 and 2007                                    |
|                       | 40,000  | 10.21                                   | Equal installments on July 31, 2006, 2007 and 2008                              |
| Hossein M. Moghadam   | 33,520  | 8.95                                    | 25% on September 1, 2005, 30% on September 1, 2006 and 45% on September 1, 2007 |
|                       | 20,000  | 14.35                                   | Equal installments on May 19, 2006, 2007 and 2008                               |
| Raymond M. Bukaty     | 120,000   | 10.21                                   | Equal installments on July 31, 2006 and 2007                                    |
|                       | 42,000  | 10.21                                   | Equal installments on July 31, 2006, 2007 and 2008                              |

For Mr. Massengill, the above amounts include 50,000 shares of common stock subject to a restricted stock award that was scheduled to vest after July 31, 2007 and was cancelled on August 25, 2005 pursuant to an employment agreement between Mr. Massengill and the Company. In addition, pursuant to the employment agreement, an aggregate of 250,000 of these shares of restricted stock that are scheduled to vest on July 31, 2007 will accelerate and vest on January 1, 2007, subject to Mr. Massengill's continued employment by the Company through such date.

- (5) This amount represents the final annual installment paid to Mr. Massengill upon the final July 1, 2005 vesting of share units awarded to him pursuant to his Long-Term Retention Agreement with the Company. The Long-Term

Retention Agreement under which the share units were awarded is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.

- (6) The amounts reported in this column for fiscal 2005 consist of: (i) the Company's matching contributions to the Western Digital Corporation 401(k) Plan on behalf of Mr. Massengill (\$2,000), Mr. Shakeel (\$2,000), Mr. Milligan (\$2,000), Dr. Moghadam (\$2,000) and Mr. Bukaty (\$2,000); and (ii) the taxable portion of Company-paid life insurance premiums on behalf of Mr. Massengill (\$1,140), Mr. Shakeel (\$2,201), Mr. Milligan (\$420), Dr. Moghadam (\$5,544) and Mr. Bukaty (\$1,260).
- (7) The Company's 2004 fiscal year included 27 bi-weekly pay periods.

**Table of Contents**

- (8) This amount represents the payment of not one, but two, annual installments under the Company's Long-Term Retention Agreement with Mr. Massengill: the first is a 2003 installment of \$3,227,000 and the second is a 2004 installment of \$3,637,200. The combined amount of \$6,864,200 is being reported in the table as a fiscal 2004 payment because the annual installment vesting of the share units underlying the payments occurred on July 1, 2003 and July 1, 2004. Each of these dates was part of fiscal 2004 because fiscal 2004 commenced June 28, 2003 and ended July 2, 2004. The Long-Term Retention Agreement under which the share units were awarded in December 2002 is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (9) Mr. Shakeel was promoted to Chief Executive Officer and President of the Company effective October 1, 2005. Prior to such time, he served as the Company's President and Chief Operating Officer.
- (10) This amount represents the final annual installment paid to Mr. Shakeel upon the final July 1, 2005 vesting of share units awarded to him pursuant to his Long-Term Retention Agreement with the Company. The Long-Term Retention Agreement under which the share units were awarded is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (11) This amount represents the payment of not one, but two, annual installments under the Company's Long-Term Retention Agreement with Mr. Shakeel: the first is a 2003 installment of \$2,305,000 and the second is a 2004 installment of \$2,598,000. The combined amount of \$4,903,000 is being reported in the table as a fiscal 2004 payment because the annual installment vesting of the share units underlying the payments occurred on July 1, 2003 and July 1, 2004. Each of these dates was part of fiscal 2004 because fiscal 2004 commenced June 28, 2003 and ended July 2, 2004. The Long-Term Retention Agreement under which the share units were awarded in December 2002 is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (12) Mr. Milligan became an executive officer of the Company in fiscal 2004 and therefore no information is provided prior to such year.
- (13) This amount includes a \$35,000 retention bonus earned by Mr. Milligan upon completion of twenty-four months of employment at the Company.
- (14) This amount consists of a retention bonus earned by Mr. Milligan upon completion of twelve months of employment at the Company.
- (15) Dr. Moghadam became an executive officer of the Company in fiscal 2005 and therefore no information is provided prior to such year.

**Table of Contents****Option/ SAR Grants in Last Fiscal Year**

The following table sets forth information regarding stock options to purchase shares of the Company's common stock granted to the Named Executive Officers during fiscal 2005 and the potential realizable value at certain assumed rates of stock price appreciation for the option term. These assumed rates are in accordance with the rules of the Securities and Exchange Commission and do not represent the Company's estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of the Company's common stock.

| Name                     | Individual Grants                             |  |                                | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term |           |           |
|--------------------------|---|--|--------------------------------|--|-----------|-----------|
|                          | Number of Securities Underlying Options/SARs* | % of Total Options/SARs* Granted to Employees in Fiscal Year | Exercise or Base Price (\$/Sh) | Expiration Date  | 5% (\$)   | 10% (\$)  |
| Matthew E. Massengill(2) | 500,000                                       | 11.3269  | 10.2100                        | 1/20/2015  | 3,210,507 | 8,136,055 |
| Arif Shakeel(3)          | 250,000                                       | 5.6634   | 10.2100                        | 1/20/2015  | 1,605,254 | 4,068,028 |
| Stephen D. Milligan      | 54,000  | 1.2233   | 10.2100                        | 1/20/2015  | 346,735   | 878,694   |
| Hossein M. Moghadam      | 48,000  | 1.0874   | 8.8900                         | 11/9/2014  | 268,362   | 680,082   |
|                          | 10,000  | 0.2265   | 8.0100                         | 9/3/2014   | 50,374    | 127,659   |
| Raymond M. Bukaty        | 58,000  | 1.3139   | 10.2100                        | 1/20/2015  | 372,419   | 943,782   |

\* The Company has not historically granted Stock Appreciation Rights.

- (1) All options to purchase shares of the Company's common stock were granted under either the Company's 2004 Performance Incentive Plan or the Employee Stock Option Plan and were granted at fair market value on the date of grant. Options become exercisable as to 25% of the total number of shares granted on the first anniversary of the grant date and 6.25% at the end of each three-month period thereafter. All options have a term of 10 years, subject to earlier termination in connection with termination of employment. The 2004 Performance Incentive Plan and the Employee Stock Option Plan are administered by the Compensation Committee, which has broad discretion and authority to construe and interpret the plan.
- (2) This table includes 187,500 shares of common stock subject to a stock option granted to Mr. Massengill in fiscal 2005 that was cancelled August 25, 2005 pursuant to an employment agreement between Mr. Massengill and the Company. In addition, pursuant to the employment agreement, an aggregate of 93,750 shares subject to the stock option that are scheduled to vest after January 1, 2007 and on or before July 31, 2007 will accelerate and vest on January 1, 2007, subject to Mr. Massengill's continued employment by the Company through such date.
- (3) This table includes 78,125 shares of common stock subject to a stock option granted to Mr. Shakeel in fiscal 2005 that was cancelled August 25, 2005 pursuant to an employment agreement between Mr. Shakeel and the Company.

**Table of Contents****Aggregated Option/ SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/ SAR Values**

The following table sets forth the option exercises in fiscal 2005, the number of shares covered by exercisable and unexercisable options held by the Named Executive Officers on July 1, 2005, and the aggregate gains that would have been realized had these options been exercised on July 1, 2005 even though these options were not exercised, and the unexercisable options could not have been exercised, on July 1, 2005.

| Name                     | Shares<br>Acquired<br>on<br>Exercise<br>(#) | Value<br>Realized<br>(\$)(1) | Number of Securities<br>Underlying Unexercised<br>Options/SARs*<br>At Fiscal Year End (#) |               | Value of Unexercised<br>In-the-Money<br>Options/SARs*<br>At Fiscal Year End \$(2) |               |
|--------------------------|---|------------------------------|---|---------------|---|---------------|
|                          |   |                              | Exercisable   | Unexercisable | Exercisable   | Unexercisable |
| Matthew E.<br>Massengill | 1,060,517                                   | 6,834,224                    | 845,571   | 775,534(3)    | 3,666,656   | 2,892,681(3)  |
| Arif Shakeel             | 822,400                                     | 4,939,984                    | 87,500  | 425,000(4)    | 60,375  | 1,584,500(4)  |
| Stephen D.<br>Milligan   | 17,500                                      | 139,650                      | 113,407   | 162,593       | 689,882   | 709,888       |
| Hossein M.<br>Moghadam   | 259,188                                     | 1,680,520                    | 32,625  | 114,937       | 162,626   | 578,506       |
| Raymond M.<br>Bukaty     | 140,443                                     | 1,187,954                    | 148,014   | 130,186       | 825,429   | 503,616       |

\* The Company has not historically granted Stock Appreciation Rights.

- (1) This value is based on the market value on the date of exercise of shares covered by the exercised options, less the option exercise price.
- (2) These amounts represent the difference between the exercise price of in-the-money options and the market price of the Company's common stock on July 1, 2005, the last trading day of fiscal 2005. The closing price of the Company's common stock on that day on the New York Stock Exchange was \$13.76. Options are in-the-money if the market value of the shares covered thereby is greater than the option exercise price.
- (3) These amounts include an aggregate of 206,250 shares of common stock subject to stock options granted to Mr. Massengill that were cancelled August 25, 2005 pursuant to an employment agreement between Mr. Massengill and the Company.
- (4) These amounts include 78,125 shares of common stock subject to a stock option granted to Mr. Shakeel that was cancelled August 25, 2005 pursuant to an employment agreement between Mr. Shakeel and the Company.

**Table of Contents****Long-Term Incentive Plans Awards in Last Fiscal Year**

The following table sets forth the number of performance shares granted to the Named Executive Officers during fiscal 2005. Each performance share award was granted under the 2004 Performance Incentive Plan and provides for a target number of shares that will be payable if certain performance conditions are satisfied. No shares will be payable if minimum performance levels are not achieved. Up to a maximum of 300% of the target number of shares will be paid if performance exceeds the target level.

| Name                     | Number of Shares, Units or Other Rights (#)(1) | Performance or Other Period Until Maturation or Payout | Estimated Future Payouts Under Non-Stock Price-Based Plans(1) |                      |                       |
|--------------------------|--|--|---|----------------------|-----------------------|
|                          |  |  | Threshold (# of Shares)                                       | Target (# of Shares) | Maximum (# of Shares) |
| Matthew E. Massengill(2) | 210,000  | 7/02/05 - 6/30/08                                      | 0   | 210,000              | 630,000               |
| Arif Shakeel(3)          | 115,000  | 7/02/05 - 6/30/08                                      | 0   | 115,000              | 345,000               |
| Stephen D. Milligan      | 55,000   | 7/02/05 - 6/30/08                                      | 0   | 55,000               | 165,000               |
| Hossein M. Moghadam      | 20,000   | 7/02/05 - 6/30/08                                      | 0   | 20,000               | 60,000                |
| Raymond M. Bukaty        | 58,000   | 7/02/05 - 6/30/08                                      | 0   | 58,000               | 174,000               |

- (1) The performance share awards represent a target number of shares of Company common stock to be paid to the Named Executive Officer, subject to adjustment based on the financial performance of the Company. Following the end of each of the three fiscal years ending in 2006, 2007 and 2008, the Compensation Committee of the Board of Directors will credit to each executive officer's account a number of performance share units equal to an amount between 0% and 300% of one-third of the target number of performance shares. The number of performance shares credited will depend upon the Company's revenue growth and cash flow for the prior fiscal year measured against certain revenue growth and cash flow targets. No units will be credited if minimum performance levels are not obtained and up to 300% of 1/3 of the target number of performance shares may be credited for performance that exceeds the targeted levels. The maximum number of shares reflected in the above table reflects the maximum number of performance share units that will be credited if the highest levels of targeted performance are achieved for the fiscal years ending in each of 2006, 2007 and 2008. Subject to certain additional vesting requirements based on continued employment, all performance share units that are so credited to an executive officer's account will be paid to the executive officer in or about July 2008. Performance share units will be paid in the form of Company common stock on a one-for-one basis.
- (2) This performance share award granted to Mr. Massengill in fiscal 2005 was cancelled on August 25, 2005 pursuant to an employment agreement between Mr. Massengill and the Company.
- (3) This performance share award granted to Mr. Shakeel in fiscal 2005 was cancelled on August 25, 2005 pursuant to an employment agreement between Mr. Shakeel and the Company.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The Compensation Committee consists of Messrs. Behrendt, Lambert and Moore. No member of the Compensation Committee during fiscal 2005 was a current or former officer or employee of the Company. There are



no Compensation Committee interlocks between the Company and other entities in which an executive officer of the Company served on the compensation committee (or equivalent) of the board of directors of another entity whose executive officer(s) served on the Company's Compensation Committee or Board of Directors.

**Table of Contents****STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total shareholder return of the Company's common stock with the cumulative total return of the S&P 500 Index and the Dow Jones US Technology, Hardware and Equipment Index for the five years ended July 1, 2005. The graph assumes that \$100 was invested on June 30, 2000 in the Company's common stock and each index and that all dividends were reinvested. No cash dividends have been declared on the Company's common stock. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

**TOTAL RETURN TO STOCKHOLDERS**  
(Assumes \$100 investment on 6/30/00)

**Total Return Analysis**

|   | <b>6/30/00</b> | <b>6/29/01</b> | <b>6/28/02</b> | <b>6/27/03</b> | <b>7/02/04</b> | <b>7/01/05</b> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Western Digital Corporation                   | 100.00         | 79.00          | 65.00          | 213.60         | 168.00         | 275.20         |
| S&P 500 Index                                 | 100.00         | 85.17          | 69.85          | 70.03          | 83.41          | 88.68          |
| Dow Jones US Technology, Hardware & Equipment | 100.00         | 43.40          | 25.68          | 28.41          | 36.68          | 35.67          |

**The stock performance graph shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act or to the liabilities of Section 18 of the Securities Exchange Act, nor shall it be incorporated by reference into any past or future filing under the Securities Act or the Securities Exchange Act, except to the extent the Company specifically requests that it be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Securities Exchange Act.**

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Under the securities laws of the United States, the directors and officers of the Company and persons who beneficially own more than 10% of the Company's common stock are required to report their initial ownership of the Company's equity securities and any subsequent changes in that ownership to the Securities and Exchange Commission and the New York Stock Exchange. Specific due dates for these reports have been established, and the Company is required to disclose in this Proxy Statement any late filings during fiscal 2005. To the Company's knowledge, based solely on its review of the copies of such reports required to be furnished to the Company with respect to fiscal 2005 and the written responses to annual directors and officers

**Table of Contents**

questionnaires that no other reports were required, all of these reports were timely filed, except for one Form 4 for one of our directors, Thomas E. Pardun, that was filed to report the disposition and reacquisition of 5,000 shares traded contrary to limited discretionary authority by his investment manager.

**EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND  
CHANGE-IN-CONTROL ARRANGEMENTS**

**Employment Arrangements**

*Mr. Massengill.* On August 25, 2005, the Company entered into an Employment Agreement with Mr. Massengill pursuant to which he relinquished the role of Chief Executive Officer of the Company, effective October 1, 2005, and agreed to continue to serve as Chairman of the Board of Directors or in such other executive capacity as may be assigned by the Board. Mr. Massengill's duties as Chairman of the Board will include offering assistance to Mr. Shakeel in his new position as Chief Executive Officer and coordinating investor communications.

In accordance with the agreement, Mr. Massengill will continue to receive base salary at his current annual rate of \$800,000, his target annual bonus under the Company's Incentive Compensation Plan will be 100% of his base salary, and Mr. Massengill will be entitled to participate in the Company's other benefit plans on terms consistent with those generally applicable to the Company's other senior executives. Mr. Massengill's outstanding stock options and shares of restricted stock, to the extent that such options and shares of restricted stock were scheduled to vest after July 31, 2007, have been cancelled pursuant to the agreement. Provided that Mr. Massengill remains employed by the Company through January 1, 2007, any of his outstanding stock options and any of his shares of restricted stock that are scheduled to vest after January 1, 2007 and on or before July 31, 2007 will accelerate and become vested on January 1, 2007. With respect to the accelerated options, Mr. Massengill will have until the later of (i) January 1, 2010, or (ii) the time the options would have otherwise expired or been terminated in accordance with the termination of employment rules otherwise applicable to the options (but in no event later than the expiration date of the options) to exercise the options. Also pursuant to the agreement, the entire performance share award granted to Mr. Massengill in January 2005, as further described under Executive Compensation Long-Term Incentive Plans Awards in Last Fiscal Year on page 24, has been cancelled.

If the Company terminates Mr. Massengill's employment other than for cause (as defined in the agreement) prior to January 1, 2007, Mr. Massengill will be entitled to (i) a lump sum cash payment equal to his base salary and target bonus for the period between the date his employment terminates and January 1, 2007, and (ii) accelerated vesting of any and all options and other equity-based awards granted by the Company that are then outstanding and not otherwise fully vested, but only to the extent such awards were otherwise scheduled to vest on or before July 31, 2007. The Employment Agreement with Mr. Massengill expires January 1, 2007, subject to certain termination provisions.

*Mr. Shakeel.* On August 25, 2005, the Company also entered into an Employment Agreement with Mr. Shakeel pursuant to which he became the Chief Executive Officer and President of the Company, effective October 1, 2005. In accordance with the agreement, effective October 1, 2005, Mr. Shakeel's annual base salary increased to \$800,000, his target annual bonus under the Company's Incentive Compensation Plan will be 100% of his base salary, and Mr. Shakeel will be entitled to participate in the Company's other benefit plans on terms consistent with those generally applicable to the Company's other senior executives. In addition, pursuant to the agreement, Mr. Shakeel was granted an award of 1,250,000 shares of restricted stock of the Company. Subject to Mr. Shakeel's continued employment by the Company, 500,000 of these restricted shares will vest on January 1, 2007, and the remaining 750,000 of these shares of restricted stock will vest on January 1, 2008.

Mr. Shakeel's outstanding stock options and shares of restricted stock, to the extent that such options and shares of restricted stock were scheduled to vest after December 31, 2007, have been cancelled pursuant to the agreement. Also pursuant to the agreement, the entire performance share award granted to Mr. Shakeel in

**Table of Contents**

January 2005, as further described under Executive Compensation Long-Term Incentive Plans Awards in Last Fiscal Year on page 24, has been cancelled.

If the Company terminates Mr. Shakeel's employment other than for cause (as defined in the agreement) prior to January 1, 2008, Mr. Shakeel will be entitled to (i) a lump sum cash payment equal to his base salary and target bonus for the period between the date his employment terminates and January 1, 2008, and (ii) accelerated vesting of any and all options and other equity-based awards granted by the Company that are then outstanding and not otherwise fully vested, but only to the extent such awards were otherwise scheduled to vest before January 1, 2008. The Employment Agreement with Mr. Shakeel expires January 1, 2008, subject to certain termination provisions.

*Mr. Milligan.* The Company entered into an agreement with Mr. Milligan, dated September 10, 2004, relating to his employment with the Company. Pursuant to the agreement, Mr. Milligan is eligible to receive a retention bonus of \$35,000 payable upon completion of twenty-four months of employment at the Company. The bonus is repayable by Mr. Milligan to the Company if, within six months after the payment date, his employment is voluntarily terminated or terminated for good cause as defined in the agreement.

**Long-Term Retention Agreements**

*Mr. Massengill and Mr. Shakeel.* The Company entered into Amended and Restated Long-Term Retention Agreements with each of Mr. Massengill and Mr. Shakeel, effective December 20, 2002, amending and restating prior long-term retention agreements with each of them. The Long-Term Retention Agreements were intended to add incentives for the executives to advance the long-term interests of the Company. Pursuant to the Long-Term Retention Agreements, Mr. Massengill and Mr. Shakeel were granted 1.4 million and 1.0 million share units, respectively, subject to certain adjustment, vesting, forfeiture and repayment provisions. The share units vested in three installments: 25% vested on July 1, 2003, 30% vested on July 1, 2004 and 45% vested on July 1, 2005. Within fifteen days of each vesting period, the Company paid each executive a cash amount equal to the product of the number of share units vesting and the average closing price of the Company's common stock for the preceding forty-five day period, but in no event more than \$9.22 per share unit. The share units granted to each of the executives have fully vested and, therefore, no further payments will be made to Mr. Massengill or Mr. Shakeel pursuant to these agreements. The amounts paid to each executive are further detailed under Executive Compensation Summary Compensation Table on page 19.

*Dr. Moghadam.* The Company entered into a Long-Term Retention Agreement with Dr. Moghadam, effective September 21, 2004, for the purpose of giving Dr. Moghadam an added incentive to advance the interests of the Company. Pursuant to this agreement, Dr. Moghadam was granted a cash award in the amount of \$450,000 that vested and became payable 25% on September 1, 2005 and will vest and become payable 30% on September 1, 2006 and 45% on September 1, 2007, subject to Dr. Moghadam's continued employment with the Company. In the event of certain corporate changes (as described in the agreement and including the Company's liquidation or a merger, reorganization or consolidation of the Company with another company in which the Company is not the surviving corporation and the surviving corporation does not assume the award or agree to issue a substitute award in its place) or the termination of Dr. Moghadam's employment upon a Change of Control (as defined in the agreement), any unvested portion of the cash award will vest in full and be payable to Dr. Moghadam. Further, in the event that Dr. Moghadam's employment with the Company terminates due to his death, the next installment of the cash award scheduled to vest will immediately vest and become payable to Dr. Moghadam and all other unvested portions of the cash award will be forfeited.

**Change of Control Severance Plan**

Effective March 29, 2001, the Company's Board of Directors adopted a Change of Control Severance Plan covering certain executives of the Company and its subsidiaries, including each of the currently employed Named Executive Officers. The Change of Control Severance Plan provides for payment of severance benefits to each participating executive officer in the event of termination of his or her employment in connection with

**Table of Contents**

a change of control of the Company. The plan provides for two levels of severance benefits. The severance benefits are payable if the Company and its subsidiaries terminate the employment of the executive officer without cause or the employee voluntarily terminates his or her employment for good reason (generally consisting of adverse changes in responsibilities, compensation, benefits or location of work place, or breach of the plan by the Company or any successor) within one year after a change of control or prior to and in connection with, or in anticipation of, such a change. The plan is effective until March 29, 2006, and may be extended by the Board of Directors until March 29, 2011.

For each of the Named Executive Officers and other officers of the Company subject to Section 16 of the Securities Exchange Act, the severance benefits generally consist of the following:

(1) a lump sum payment equal to two times the officer's annual base compensation plus the target bonus as in effect immediately prior to the change in control or as in effect on the date of notice of termination of the executive officer's employment with the Company, whichever is higher;

(2) 100% vesting of any unvested stock options granted to the officer by the Company;

(3) extension of the period in which the officer's options may be exercised to the longer of (a) 90 days after the date of termination of his or her employment with the Company and (b) the period specified in the plan or agreement governing the options;

(4) continuation for a period of 24 months of the same or equivalent life, health, hospitalization, dental and disability insurance coverage and other employee insurance or welfare benefits, including equivalent coverage for his or her spouse and dependent children, and a car allowance equal to what the officer was receiving immediately prior to the change in control, or a lump sum payment equal to the cost of obtaining coverage for 24 months if the officer is ineligible to be covered under the terms of the Company's insurance and welfare benefits;

(5) a lump sum payment equal to the amount of in-lieu payments that the officer would have been entitled to receive during the 24 months after termination of his or her employment if the officer, prior to the change in control, was receiving any cash-in-lieu payments designed to enable the officer to obtain insurance coverage of his or her choosing; and

(6) acceleration of all awards granted to the officer under the Company's Executive Retention Plan adopted in 1998 or any similar plan.

Any health and welfare benefits will be reduced to the extent of the receipt of substantially equivalent coverage by the officer from any successor employer. Generally, the benefits will be increased to the extent the officer has to pay taxes associated with excess parachute payments under the Internal Revenue Code, such that the net amount received by the officer is equal to the total payments he or she would have received had the tax not been incurred.

**Stock Incentive Plans and Deferred Compensation Plan**

Subject to certain conditions or restrictions as described in the Company's stock incentive plans, the Company's stock incentive plans generally provide for the acceleration of the vesting of awards granted thereunder in the event of certain change of control events described in the plans. In these circumstances, each option may become immediately exercisable, restricted stock may immediately vest and the number of shares covered by each performance share award may be issued to the participant. Further, under the Company's Deferred Compensation Plan, in the event of certain change of control events described in the plan, Company contribution amounts and deferral amounts will immediately vest (to the extent unvested) and will become payable to participants as provided in the plan.

**Table of Contents**

**PROPOSAL 2**  
**APPROVAL OF THE WESTERN DIGITAL CORPORATION**  
**2005 EMPLOYEE STOCK PURCHASE PLAN**

At the Annual Meeting, shareholders will be asked to approve the Western Digital Corporation 2005 Employee Stock Purchase Plan, which was adopted, subject to shareholder approval, by the Board of Directors on September 20, 2005. If shareholders approve the 2005 Employee Stock Purchase Plan, the Western Digital Corporation 1993 Employee Stock Purchase Plan, which was suspended by the Company on July 21, 2005 with respect to future exercise periods, will be terminated.

Under the 2005 Employee Stock Purchase Plan, shares of the Company's common stock will be available for purchase by eligible employees who elect to participate in the 2005 Employee Stock Purchase Plan. Eligible employees will be entitled to purchase, by means of payroll deductions, limited amounts of the Company's common stock at a discount during periodic offering periods. Subject to the requirements described below, the Company will establish in advance of each offering period the duration of the offering period and the methodology for determining the purchase price of the shares to be offered during the offering period. The 2005 Employee Stock Purchase Plan will not be effective without shareholder approval.

The Board of Directors believes that the 2005 Employee Stock Purchase Plan will help the Company retain and motivate eligible employees and will help further align the interests of eligible employees with those of the Company's shareholders.

**Summary Description of the 2005 Employee Stock Purchase Plan**

The principal terms of the 2005 Employee Stock Purchase Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2005 Employee Stock Purchase Plan, which appears as Exhibit B to this Proxy Statement.

*Purpose.* The purpose of the 2005 Employee Stock Purchase Plan is to provide eligible employees with an opportunity to purchase shares of the Company's common stock at a favorable price and upon favorable terms in consideration of the participating employees' continued services. The 2005 Employee Stock Purchase Plan is intended to provide an additional incentive to participating eligible employees to remain in the Company's employ and to advance the best interests of the Company and its shareholders.

*Operation of the 2005 Employee Stock Purchase Plan.* The 2005 Employee Stock Purchase Plan will operate in a series of periods referred to as Offering Periods. If shareholders approve the 2005 Employee Stock Purchase Plan, the Company currently expects that the first Offering Period will commence on December 1, 2005. The Company will establish the duration of each Offering Period in advance of that Offering Period. However, an Offering Period may not be longer than 24 months. The Company may provide for a new Offering Period to start before an Offering Period in progress has ended, but no one participant may participate in more than one Offering Period at the same time.

On the first day of each Offering Period (referred to as the Enrollment Date), each eligible employee who has timely filed a valid election to participate in the 2005 Employee Stock Purchase Plan for that Offering Period will be granted an option to purchase shares of the Company's common stock. A participant may designate in his or her election the percentage of his or her compensation to be withheld from his or her pay during that Offering Period for the purchase of stock under the 2005 Employee Stock Purchase Plan. The participant's contributions under the 2005 Employee Stock Purchase Plan will be credited to a bookkeeping account in his or her name. A participant generally may elect to terminate his or her contributions to the 2005 Employee Stock Purchase Plan at any time during an Offering Period. A participant also generally may elect to increase or decrease the rate of his or her contributions to the 2005 Employee Stock Purchase Plan up to four times in a calendar year. Amounts contributed to the 2005 Employee Stock Purchase Plan constitute general corporate assets of the Company and may be used for any corporate purpose.

An Offering Period may consist of one or more periods referred to as Exercise Periods. The last day of each Exercise Period is referred to as an Exercise Date. Each option granted under the 2005 Employee

**Table of Contents**

Stock Purchase Plan for an Offering Period will automatically be exercised on each Exercise Date that occurs within that Offering Period. The number of shares acquired by a participant upon exercise of his or her option will be determined by dividing the participant's account balance under the 2005 Employee Stock Purchase Plan as of the Exercise Date by the Exercise Price for that Offering Period. The Company will establish the methodology for setting the Exercise Price in an Offering Period in advance of that Offering Period, except that in no event may the Exercise Price be lower than the lesser of (i) 85% of the fair market value of a share of the Company's common stock on the applicable Enrollment Date, or (ii) 85% of the fair market value of a share of the Company's common stock on the applicable Exercise Date. A participant's account will be reduced upon exercise of his or her option by the amount used to pay the Exercise Price of the shares acquired by the participant. No interest will be paid to any participant or credited to any account under the 2005 Employee Stock Purchase Plan.

*Eligibility.* Only certain employees will be eligible to participate in the 2005 Employee Stock Purchase Plan. To be eligible to participate in an Offering Period, on the Enrollment Date of that period an individual must:

be employed by the Company or one of its subsidiaries that has been designated as a participating subsidiary; and

be customarily employed for more than 20 hours per week.

As of July 1, 2005, approximately 23,161 employees of the Company and its subsidiaries, including all of the Named Executive Officers, would have been eligible to participate in the 2005 Employee Stock Purchase Plan had the plan then been in effect.

*Limits on Authorized Shares; Limits on Contributions.* If shareholders approve the 2005 Employee Stock Purchase Plan, a maximum of 5,000,000 shares of the Company's common stock will be available for delivery under the plan.

Participation in the 2005 Employee Stock Purchase Plan is also subject to the following limits:

A participant cannot contribute more than 10% of his or her compensation to the purchase of stock under the 2005 Employee Stock Purchase Plan in any one payroll period.

A participant cannot purchase more than \$25,000 of stock (valued at the start of the applicable Offering Period and without giving effect to any discount reflected in the purchase price for the stock) under the 2005 Employee Stock Purchase Plan in any one calendar year.

A participant will not be granted an option under the 2005 Employee Stock Purchase Plan if it would cause the participant to own stock and/or hold outstanding options to purchase stock representing 5% or more of the total combined voting power or value of all classes of stock of the Company or one of its subsidiaries or to the extent it would exceed certain other limits under the U.S. Internal Revenue Code (the Code).

The Company has the flexibility to change the 10%-contribution referred to above and to fix a maximum limit on the number of shares that may be acquired by any individual during an Exercise Period under the 2005 Employee Stock Purchase Plan from time to time without shareholder approval. However, the Company cannot increase the aggregate share limit under the 2005 Employee Stock Purchase Plan without shareholder approval, other than to reflect stock splits and similar adjustments as described below. The \$25,000 and the 5% ownership limitations referred to above are required under the Code.

*Antidilution Adjustments.* As is customary in stock incentive plans of this nature, the number and kind of shares available under the 2005 Employee Stock Purchase Plan, as well as purchase prices and share limits under the 2005 Employee Stock Purchase Plan, are subject to adjustment in the case of certain corporate events. These events include reorganizations, mergers, combinations, consolidations, recapitalizations, reclassifications, stock splits, stock dividends, asset sales or other similar unusual or extraordinary corporate events, or extraordinary dividends or distributions of property to the Company's shareholders.

**Table of Contents**

*Termination of Participation.* A participant's election to participate in the 2005 Employee Stock Purchase Plan will generally continue in effect for all Offering Periods until the participant files a new election that takes effect or the participant ceases to participate in the 2005 Employee Stock Purchase Plan. A participant's participation in the 2005 Employee Stock Purchase Plan generally will terminate if, prior to the applicable Exercise Date, the participant ceases to be employed by the Company or one of its participating subsidiaries or the participant is no longer scheduled to work more than 20 hours per week.

If a participant's participation in the 2005 Employee Stock Purchase Plan terminates during an Offering Period for any of the reasons discussed in the preceding paragraph, he or she will no longer be permitted to make contributions to the 2005 Employee Stock Purchase Plan for that Offering Period and, subject to limited exceptions, his or her option for that Offering Period will automatically terminate and his or her account balance will be paid to him or her in cash without interest. However, a participant's termination from participation will not have any effect upon his or her ability to participate in any succeeding Offering Period, provided that the applicable eligibility and participation requirements are again then met.

*Transfer Restrictions.* A participant's rights with respect to options or the purchase of shares under the 2005 Employee Stock Purchase Plan, as well as contributions credited to his or her account, may not be assigned, transferred, pledged or otherwise disposed of in any way except by will or the laws of descent and distribution.

*Administration.* The 2005 Employee Stock Purchase Plan is administered by the Board of Directors or by a committee appointed by the Board of Directors. The Board of Directors has appointed the Compensation Committee of the Board of Directors as the current administrator of the 2005 Employee Stock Purchase Plan. The administrator has full power and discretion to adopt, amend or rescind any rules and regulations for carrying out the 2005 Employee Stock Purchase Plan and to construe and interpret the 2005 Employee Stock Purchase Plan. Decisions of the administrator with respect to the 2005 Employee Stock Purchase Plan are final and binding on all persons.

*No Limit on Other Plans.* The 2005 Employee Stock Purchase Plan does not limit the ability of the Board of Directors or any committee of the Board of Directors to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

*Amendments.* The Board of Directors generally may amend or suspend the 2005 Employee Stock Purchase Plan at any time and in any manner. No amendment, suspension or termination of the 2005 Employee Stock Purchase Plan may have a material adverse effect on the then-existing rights of any participant during an Exercise Period without the participant's written consent, but the Board of Directors may amend, suspend or terminate the 2005 Employee Stock Purchase Plan as to any outstanding options granted under the 2005 Employee Stock Purchase Plan for an Offering Period, effective as of any Exercise Date within that Offering Period, without the consent of the participants to whom such options were granted. Shareholder approval for an amendment to the 2005 Employee Stock Purchase Plan will only be required to the extent necessary to meet the requirements of Section 423 of the Code or to the extent otherwise required by law or applicable stock exchange rules.

*Termination.* The Board of Directors may terminate the 2005 Employee Stock Purchase Plan at any time. The 2005 Employee Stock Purchase Plan will also terminate earlier if all of the shares authorized under the 2005 Employee Stock Purchase Plan have been purchased.

**Federal Income Tax Consequences of the 2005 Employee Stock Purchase Plan**

Following is a general summary of the current federal income tax principles applicable to the 2005 Employee Stock Purchase Plan. The following summary is not intended to be exhaustive and, among other considerations, does not describe state, local or international tax consequences.

The 2005 Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Code. Participant contributions to the 2005 Employee Stock Purchase Plan are made on an after-tax basis. That is, a participant's contributions are deducted from compensation that is taxable to the participant and for which the Company is generally entitled to a tax deduction.



**Table of Contents**

Generally, no taxable income is recognized by a participant with respect to either the grant or exercise of his or her option under the 2005 Employee Stock Purchase Plan. The Company will have no tax deduction with respect to either of those events. A participant will generally recognize income (or loss) only upon a sale or disposition of any shares that the participant acquires under the 2005 Employee Stock Purchase Plan. The particular tax consequences of a sale of shares acquired under the 2005 Employee Stock Purchase Plan depend on whether the participant has held the shares for a Required Holding Period before selling or disposing of the shares. The Required Holding Period starts on the date that the participant acquires the shares under the 2005 Employee Stock Purchase Plan and ends on the *later* of (1) two years after the Enrollment Date of the Offering Period in which the participant acquired the shares, or (2) one year after the Exercise Date on which the participant acquired the shares.

If the participant holds the shares for the Required Holding Period and then sells the shares at a price in excess of the purchase price paid for the shares, the gain on the sale of the shares will be taxed as ordinary income to the participant to the extent of the *lesser* of (1) the amount by which the fair market value of the shares on the Enrollment Date of the Offering Period in which the participant acquired the shares exceeded the option price of the shares, or (2) the gain on the sale of the shares. Any portion of the participant's gain on the sale of the shares not taxed as ordinary income will be taxed as long-term capital gain. If the participant holds the shares for the Required Holding Period and then sells the shares at a price less than the purchase price paid for the shares, the loss on the sale will be treated as a long-term capital loss to the participant. The Company will not be entitled to a tax deduction with respect to any shares held by the participant for the Required Holding Period, regardless of whether the shares are eventually sold at a gain or a loss.

The participant has a Disqualifying Disposition if the participant disposes of the shares before the participant has held the shares for the Required Holding Period. If the participant sells the shares in a Disqualifying Disposition, the participant will realize ordinary income in an amount equal to the difference between the fair market value of the shares on the Exercise Date on which the participant acquired the shares and the purchase price paid for the shares, and the Company generally will be entitled to a corresponding tax deduction. In addition, if the participant makes a Disqualifying Disposition of the shares at a price in excess of the fair market value of the shares on the Exercise Date, the participant will realize capital gain in an amount equal to the difference between the selling price of the shares and the fair market value of the shares on the Exercise Date. Alternatively, if the participant makes a Disqualifying Disposition of the shares at a price less than the fair market value of the shares on the Exercise Date, the participant will realize a capital loss in an amount equal to the difference between the fair market value of the shares on the Exercise Date and the selling price of the shares. The Company will not be entitled to a tax deduction with respect to any capital gain realized by the participant.

**Specific Benefits**

The benefits that will be received by or allocated to eligible employees under the 2005 Employee Stock Purchase Plan cannot be determined at this time because the amount of contributions set aside to purchase shares of the Company's common stock under the 2005 Employee Stock Purchase Plan (subject to the limitations discussed above) is entirely within the discretion of each participant.

The closing price of a share of the Company's common stock as of September 20, 2005 was \$12.90 per share.

**Vote Required and Recommendation of the Board of Directors**

The affirmative vote of a majority of the shares of the Company's common stock represented in person or by proxy at the Annual Meeting and entitled to vote (which shares must also constitute at least the required quorum) is required for approval of the 2005 Employee Stock Purchase Plan. If you are a beneficial owner, please note that brokers, trustees and other nominees do not have discretionary authority to vote on your behalf for the adoption of the 2005 Employee Stock Purchase Plan. As a result, if you do not submit voting instructions to your broker, trustee or other nominee, your shares will not be considered entitled to vote for purposes of determining whether Proposal 2 has been approved by shareholders and, therefore, will not be

**Table of Contents**

counted in determining the outcome of Proposal 2. If you abstain from voting on Proposal 2, whether you are a shareholder of record or a beneficial owner, your vote will have the effect of a vote against approval of the 2005 Employee Stock Purchase Plan.

The Board of Directors believes that adoption of the 2005 Employee Stock Purchase Plan will promote the interests of the Company and its shareholders and continue to enable the Company to attract, retain and award persons important to its success.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 2 TO APPROVE THE 2005 EMPLOYEE STOCK PURCHASE PLAN AS DESCRIBED ABOVE AND SET FORTH IN EXHIBIT B HERETO.**

Members of the Board of Directors who are also employees or officers of the Company are eligible to participate in the 2005 Employee Stock Purchase Plan and thus have a personal interest in the approval of the 2005 Employee Stock Purchase Plan.

**Table of Contents**

**PROPOSAL 3  
APPROVAL OF AMENDMENT TO THE  
WESTERN DIGITAL CORPORATION  
2004 PERFORMANCE INCENTIVE PLAN**

**General**

At the Annual Meeting, shareholders will be asked to approve an amendment to the Western Digital Corporation 2004 Performance Incentive Plan, which would increase the number of shares of the Company's common stock available for award grants under the 2004 Performance Incentive Plan by an additional 13,000,000 shares. This amendment was adopted, subject to shareholder approval, by the Board of Directors on September 22, 2005.

As of September 22, 2005, a total of 5,226,498 shares of the Company's common stock were subject to outstanding awards granted under the 2004 Performance Incentive Plan (assuming a maximum payout of 300% of the target number of performance shares awarded under the 2004 Performance Incentive Plan), and an additional 2,164,502 shares of the Company's common stock were available for new award grants under the 2004 Performance Incentive Plan. The Board of Directors approved the additional share authority requested under the 2004 Performance Incentive Plan based, in part, on a belief that the number of shares currently available under the 2004 Performance Incentive Plan does not give the Company sufficient flexibility to adequately provide for future incentives. The Company will continue to have the authority to grant awards under the 2004 Performance Incentive Plan, within the existing 2004 Performance Incentive Plan limits, if shareholders do not approve this 2004 Performance Incentive Plan proposal.

**Summary Description of the 2004 Performance Incentive Plan**

The principal terms of the 2004 Performance Incentive Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2004 Performance Incentive Plan (as proposed to be amended), which has been filed as Exhibit C to the copy of this Proxy Statement that was filed electronically with the Securities and Exchange Commission and can be reviewed on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov) or on our website at [www.westerndigital.com](http://www.westerndigital.com). A copy of the 2004 Performance Incentive Plan document may also be obtained without charge by writing the Company's Secretary at Western Digital Corporation, 20511 Lake Forest Drive, Lake Forest, California 92630-7741.

*Purpose.* The purpose of the 2004 Performance Incentive Plan is to promote the success of the Company and the interests of the Company's shareholders by providing an additional means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. Equity-based awards are also intended to further align the interests of award recipients and the Company's shareholders.

*Administration.* The Board of Directors or one or more committees appointed by the Board of Directors administers the 2004 Performance Incentive Plan. To the extent required by any applicable listing agency, the 2004 Performance Incentive Plan must be administered by a committee composed entirely of independent directors (within the meaning of the applicable listing agency). The Board of Directors has delegated general administrative authority for the 2004 Performance Incentive Plan to the Compensation Committee. A committee may delegate some or all of its authority with respect to the 2004 Performance Incentive Plan to another committee of directors, and certain limited authority to grant awards to employees may be delegated to one or more officers of the Company. (The appropriate acting body, be it the Board of Directors, a committee within its delegated authority, or an officer within his or her delegated authority, is referred to in this proposal as the Administrator).

**Table of Contents**

The Administrator has broad authority under the 2004 Performance Incentive Plan with respect to awarding grants including, without limitation, the authority:

to select participants and determine the type(s) of award(s) that they are to receive;

to determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award, provided that award grants to persons who are determined to be subject to Section 16 of the Securities Exchange Act must be authorized only by a committee consisting solely of two or more non-employee directors (as this requirement is applied under Rule 16b-3 promulgated under the Securities Exchange Act);

to cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;

subject to the minimum vesting rules of the 2004 Performance Incentive Plan, to accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;

subject to the other provisions of the 2004 Performance Incentive Plan, to make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award; and

to allow the purchase price of an award or shares of the Company's common stock to be paid in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of the Company's common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice in third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law.

*No Repricing.* In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by shareholders) will any adjustment be made to a stock option or stock appreciation right award under the 2004 Performance Incentive Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

*Eligibility.* Persons eligible to receive awards under the 2004 Performance Incentive Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries. As of July 1, 2005, approximately 23,161 officers and employees of the Company and its subsidiaries (including all of the Named Executive Officers), and each of the Company's non-employee directors, are considered eligible under the 2004 Performance Incentive Plan.

*Authorized Shares; Limits on Awards.* As of September 22, 2005, the maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2004 Performance Incentive Plan equaled the sum of: (1) 8,520,684 shares, plus (2) the number of any shares subject to stock options granted under the Company's Employee Stock Option Plan, Stock Option Plan for Non-Employee Directors or Broad-Based Stock Incentive Plan (collectively, the Existing Plans) which expire, or for any reason are cancelled or terminated, after that date without being exercised, plus (3) the number of any shares of restricted stock granted under the Broad-Based Stock Incentive Plan that were unvested as of that date and are forfeited, terminated, cancelled or otherwise reacquired by the Company without having become vested. As of September 22, 2005, 16,634,794 options and 267,206 shares of unvested restricted stock were subject to awards then outstanding under the Existing Plans. If shareholders approve this proposal, the number of shares available for award grant purposes under the 2004 Performance Incentive Plan will be increased by an additional 13,000,000 shares.

Shares issued in respect of any full-value award granted under the 2004 Performance Incentive Plan will be counted against the share limit described in the preceding paragraph as 1.35 shares for every one share actually issued in connection with the award. For example, if a stock bonus of 100 shares of the Company's common stock were granted under the 2004 Performance Incentive Plan, 135 shares would be charged against the share limit with respect

to that stock bonus award. For this purpose, a full-value award generally means any award granted under the plan other than: (1) shares delivered in respect of compensation earned but deferred, and (2) shares delivered pursuant to option or stock appreciation right grants the per share exercise

**Table of Contents**

or base price, as applicable, of which is at least equal to the fair market value of a share of the Company's common stock at the time of grant of the award.

The following other limits are also contained in the 2004 Performance Incentive Plan:

The maximum number of shares that may be delivered pursuant to options qualified as incentive stock options granted under the plan is 35,199,313 shares.

The maximum number of shares subject to those options and stock appreciation rights that are granted during any calendar year to any individual under the plan is 1,000,000 shares.

Performance-Based Awards under Section 5.2 of the 2004 Performance Incentive Plan payable only in cash and not related to shares and granted to a participant in any one calendar year will not provide for payment of more than \$5,000,000.

Shares subject to stock options or SARs with an exercise price less than the fair market value as of the grant date and the portion of any full-value award that does not meet the minimum vesting requirements under Section 5.1.5 of the 2004 Performance Incentive Plan cannot exceed 5% of the total shares of Common Stock available for award grant purposes under the plan.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 2004 Performance Incentive Plan. In the event that shares are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of the 2004 Performance Incentive Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits, as opposed to only counting the shares actually issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits with respect to such exercise.) Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any reason are not paid or delivered under the 2004 Performance Incentive Plan will again be available for subsequent awards under the 2004 Performance Incentive Plan. In addition, the 2004 Performance Incentive Plan generally provides that shares issued in connection with awards that are granted by or become obligations of the Company through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the 2004 Performance Incentive Plan.

*Types of Awards.* The 2004 Performance Incentive Plan authorizes stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards granted or denominated in the Company's common stock or units of the Company's common stock, as well as cash bonus awards pursuant to Section 5.2 of the 2004 Performance Incentive Plan. The 2004 Performance Incentive Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of the Company's common stock at a future date at a specified price per share (the exercise price). The per share exercise price of an option generally may not be less than the fair market value of a share of the Company's common stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under Federal Income Tax Consequences of Awards Under the 2004 Performance Incentive Plan below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the U.S. Internal Revenue Code and the 2004 Performance Incentive Plan. Incentive stock options may only be granted to employees of the Company or a subsidiary.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value of a share of the Company's common stock on the date of exercise of the stock appreciation right



**Table of Contents**

over the base price of the stock appreciation right. The base price will be established by the Administrator at the time of grant of the stock appreciation right and generally cannot be less than the fair market value of a share of the Company's common stock on the date of grant. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

The per share exercise price of an option or the per share base price of a stock appreciation right may, however, be less than the fair market value of a share of the Company's common stock on the date of grant in the case of (1) awards granted as a substitution for another award, or (2) if the option or stock appreciation right will be counted as a full-value award against the plan's share limit (as described above under *Authorized Shares; Limits on Awards* ).

The other types of awards that may be granted under the 2004 Performance Incentive Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units, dividend equivalents, or similar rights to purchase or acquire shares, and cash awards granted consistent with Section 5.2 of the 2004 Performance Incentive Plan as described below.

The 2004 Performance Incentive Plan generally imposes a minimum one-year vesting requirement on any full-value awards that are subject to a performance-based vesting condition and generally requires that any other full-value awards not vest more rapidly than in monthly installments over a three-year period, although the Administrator may provide for accelerated vesting of awards under certain specified circumstances such as a change of control of the Company or a termination of the award holder's employment (other than for cause). In addition, the portion of any full-value awards under the 2004 Performance Incentive Plan that do not meet these vesting requirements are subject to the 5% limit described above under *Authorized Shares; Limits on Awards*.

*Performance-Based Awards.* The Administrator may grant awards that are intended to be performance-based awards within the meaning of Section 162(m) of the U.S. Internal Revenue Code. Performance-based awards are in addition to any of the other types of awards that may be granted under the 2004 Performance Incentive Plan (including options and stock appreciation rights which may also qualify as performance-based awards for Section 162(m) purposes). Performance-based awards may be in the form of restricted stock, performance stock, stock units, other rights, or cash bonus opportunities.

The vesting or payment of performance-based awards (other than options or stock appreciation rights) will depend on the absolute or relative performance of the Company on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. The Administrator must establish criteria and targets in advance of applicable deadlines under the U.S. Internal Revenue Code and while the attainment of the performance targets remains substantially uncertain. The criteria that the Administrator may use for this purpose will include one or more of the following: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total shareholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. The performance measurement period with respect to an award may range from three months to ten years. Performance targets will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets.

Performance-based awards may be paid in stock or in cash (in either case, subject to the limits described under the heading *Authorized Shares; Limits on Awards* above). Before any performance-based award (other than an option or stock appreciation right) is paid, the Administrator must certify that the performance target or targets have been satisfied. The Administrator has discretion to determine the performance target or targets and any other restrictions or other limitations of performance-based awards and may reserve discretion to reduce payments below maximum award limits.



**Table of Contents**

*Deferrals.* The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

*Acceleration of Awards; Possible Early Termination of Awards.* Generally, and subject to limited exceptions set forth in the 2004 Performance Incentive Plan, if any person acquires more than 33<sup>1</sup>/<sub>3</sub>% of the outstanding common stock or combined voting power of the Company, if certain changes in a majority of the Board of Directors occur over a period of not longer than two years, if shareholders prior to a transaction do not continue to own more than 50% of the voting securities of the Company (or a successor or a parent) following a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the Company's assets or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries, or if the Company is dissolved or liquidated, then awards then-outstanding under the 2004 Performance Incentive Plan may become fully vested or paid, as applicable, and may terminate or be terminated in such circumstances. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2004 Performance Incentive Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a change in control event that is not described above and provide that any such acceleration shall be automatic upon the occurrence of any such event.

*Transfer Restrictions.* Subject to certain exceptions contained in Section 5.7 of the 2004 Performance Incentive Plan, awards under the 2004 Performance Incentive Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such transfers are made for estate or tax planning or charitable purposes for no (or nominal) consideration and comply with applicable federal and state securities laws.

*Adjustments.* As is customary in incentive plans of this nature, each share limit and the number and kind of shares available under the 2004 Performance Incentive Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the shareholders.

*No Limit on Other Authority.* The 2004 Performance Incentive Plan does not limit the authority of the Board of Directors or any committee to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

*Termination of or Changes to the 2004 Performance Incentive Plan.* The Board of Directors may amend or terminate the 2004 Performance Incentive Plan at any time and in any manner. Shareholder approval for an amendment will be required only to the extent then required by applicable law, to the extent required under Sections 162, 422 or 424 of the U.S. Internal Revenue Code to preserve the intended tax consequences of the plan, or to the extent the amendment constitutes a material revision of the plan within the meaning of applicable listing rules. Shareholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 2004 Performance Incentive Plan or to increase any other share limit set forth in the plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring shareholder approval.) Unless terminated earlier by the Board of Directors, the authority to grant new awards under the 2004 Performance Incentive Plan will terminate on September 21, 2014. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but



**Table of Contents**

the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

**Federal Income Tax Consequences of Awards under the 2004 Performance Incentive Plan**

The U.S. federal income tax consequences of the 2004 Performance Incentive Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2004 Performance Incentive Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or international tax consequences.

With respect to nonqualified stock options, the Company is generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, the Company is generally not entitled to a deduction nor does the participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax.

The current federal income tax consequences of other awards authorized under the 2004 Performance Incentive Plan generally follow certain basic patterns: stock appreciation rights are taxed and deductible in substantially the same manner as nonqualified stock options; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the Company will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2004 Performance Incentive Plan in connection with a change in control (as this term is used under the U.S. Internal Revenue Code), the Company may not be permitted to deduct the portion of the compensation attributable to the acceleration ( parachute payments ) if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code may not be permitted to be deducted by the Company in certain circumstances.

**Specific Benefits under the 2004 Performance Incentive Plan**

The Company has not approved any other awards that are conditioned upon shareholder approval of the proposed amendment of the 2004 Performance Incentive Plan. The number, amount and type of awards to be received by or allocated to eligible persons in the future under the 2004 Performance Incentive Plan cannot be determined at this time. If the share increase reflected in this 2004 Performance Incentive Plan proposal had been in effect in fiscal 2004, the Company expects that its award grants for fiscal 2004 would not have been substantially different from those actually made in that year under the 2004 Performance Incentive Plan.

For information regarding stock-based awards granted to the Named Executive Officers during fiscal 2004, see the material under the heading Executive Compensation above. For information regarding past award grants under the 2004 Performance Incentive Plan, see the Aggregate Past Grants under the 2004 Performance Incentive Plan table below.

The closing market price for a share of the Company's common stock as of September 22, 2005 was \$12.77 per share.

**Table of Contents****Aggregate Past Grants Under the 2004 Performance Incentive Plan**

As of September 22, 2005, awards covering 5,545,807 shares of the Company's common stock had been granted under the 2004 Performance Incentive Plan. The following table shows information regarding the distribution of those awards among the persons and groups identified below, option exercises and restricted stock vesting prior to and option and unvested restricted stock holdings as of that date.

| Name  | Stock Options                   |                             |                                  | Restricted Stock               |               |                 | Performance Shares                |
|---|---------------------------------|-----------------------------|----------------------------------|--------------------------------|---------------|-----------------|-----------------------------------|
|   | Shares Subject to Option Grants | Shares Acquired on Exercise | Shares Exercisable/Unexercisable | Shares Subject to Award Grants | Vested Shares | Unvested Shares | Shares Subject to Award Grants(1) |
| <b>Named Executive Officers:</b>  |                                 |                             |                                  |                                |               |                 |                                   |
| Matthew E. Massengill   | 500,000                         |                             | 312,500(2)                       | 550,000                        |               | 500,000(3)      | 210,000(4)                        |
| Arif Shakeel  | 250,000                         |                             | 171,875(5)                       | 1,595,000                      |               | 1,566,667(6)    | 115,000(4)                        |
| Stephen D. Milligan   | 54,000                          |                             | 54,000                           | 160,000                        |               | 160,000         | 55,000                            |
| Hossein M. Moghadam   |                                 |                             |                                  | 20,000                         |               | 20,000          | 20,000                            |
| Raymond M. Bukaty   | 58,000                          |                             | 58,000                           | 162,000                        |               | 162,000         | 58,000                            |
| <b>All Executive Officers as a Group (6 persons)</b>  | 862,000                         |                             | 596,375                          | 2,557,000                      |               | 2,478,667       | 498,000                           |
| <b>Non-Executive Director Group</b>   | 70,000                          |                             | 70,000                           |                                |               |                 |                                   |
| <b>Each other person who has received 5% or more of the options, warrants or rights under the 2004 Performance Incentive Plan</b> | 300,000                         |                             | 300,000                          | 75,000                         |               | 75,000          |                                   |
| <b>All other employees, including all current officers who are not executive officers or directors, as a group</b>                | 1,048,807                       | 10,622                      | 1,021,834(7)                     | 125,000                        |               | 125,000         | 10,000                            |
| <b>Total</b>  | 2,280,807                       | 10,622                      | 1,988,209                        | 2,757,000                      |               | 2,678,667       | 508,000                           |

- (1) The performance shares represent a target number of shares of Company common stock to be paid to the recipient, subject to adjustment based on the financial performance of the Company. Following the end of each of the three fiscal years ending in 2006, 2007 and 2008, the Compensation Committee will credit to each recipient's account a number of performance shares equal to an amount between 0% and 300% of one-third of the target number of performance shares. The number of performance shares credited will depend upon the Company's revenue growth and cash flow for the prior fiscal year measured against certain revenue growth and cash flow targets. Subject to certain additional vesting requirements based on continued employment, all performance shares so credited will be paid to the recipient in or about July 2008 in the form of Company common stock on a one-for-one basis.
- (2) Excludes 187,500 shares of common stock subject to stock options that have been cancelled.
- (3) Excludes 50,000 shares of common stock subject to a restricted stock award that has been cancelled.
- (4) The performance shares awarded to Mr. Massengill and Mr. Shakeel have been cancelled.
- (5) Excludes 78,125 shares of common stock subject to a stock option that has been cancelled.
- (6) Excludes 28,333 shares of common stock subject to a restricted stock award that has been cancelled.
- (7) Excludes 16,351 shares of common stock subject to stock options that have been cancelled.

**Table of Contents**

**Vote Required and Recommendation of the Board of Directors**

The affirmative vote of a majority of the shares of the Company's common stock represented in person or by proxy at the Annual Meeting and entitled to vote (which shares must also constitute at least the required quorum) is required for approval of the amendment to the 2004 Performance Incentive Plan. If you are a beneficial owner, please note that brokers, trustees and other nominees do not have discretionary authority to vote on your behalf for the approval of the 2004 Performance Incentive Plan proposal. As a result, if you do not submit voting instructions to your broker, trustee or other nominee, your shares will not be considered entitled to vote for purposes of determining whether Proposal 3 has been approved by shareholders and, therefore, will not be counted in determining the outcome of Proposal 3. If you abstain from voting on Proposal 3, whether you are a shareholder of record or a beneficial owner, your vote will have the effect of a vote against approval of the 2004 Performance Incentive Plan proposal.

The Board of Directors believes that the proposed amendment to the 2004 Performance Incentive Plan will promote the interests of the Company and its shareholders and will help the Company and its subsidiaries continue to be able to attract, retain and reward persons important to the Company's success.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 3 TO APPROVE THE AMENDMENT TO THE 2004 PERFORMANCE INCENTIVE PLAN AS DESCRIBED ABOVE.**

All members of the Board of Directors are eligible for awards under the 2004 Performance Incentive Plan and thus have a personal interest in the approval of the amendment to the 2004 Performance Incentive Plan.

**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION**

The following table gives information with respect to the Company's equity compensation plans as of July 1, 2005, which plans were as follows: Non-Employee Directors Stock-for-Fees Plan, 2004 Performance Incentive Plan, Employee Stock Option Plan, Broad-Based Stock Incentive Plan, Stock Option Plan for Non-Employee Directors and 1993 Employee Stock Purchase Plan. With the exception of the Broad-Based Stock Incentive Plan, these plans have each been approved by the Company's shareholders. Following expiration of the Employee Stock Option Plan on November 10, 2004 and approval of the 2004 Performance Incentive Plan by the Company's shareholders on November 18, 2004, no new awards are permitted under the Employee Stock Option Plan, the Broad-Based Stock Incentive Plan or the Stock Option Plan for Non-Employee Directors. In addition, if shareholders approve the Company's 2005 Employee Stock Purchase Plan as described in Proposal 2, the Company's 1993 Employee Stock Purchase Plan will immediately terminate and no shares will be available for future issuance under that plan.

The following table does not reflect the additional shares that will be available under the 2005 Employee Stock Purchase Plan if Proposal 2 is approved by shareholders or the additional shares that will be available under the 2004 Performance Incentive Plan if Proposal 3 is approved by shareholders.

|  | (a)   | (b)   | (c)  |
|--|---|---|--|
| Plan Category  | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) |
| Equity compensation plans approved by security holders     | 16,343,629(1)   | \$ 10.8411(2)   | 5,348,824(3)   |
| Equity compensation plans not approved by security holders | 4,799,700(4)  | 4.9641  | 0  |
| Total  | 21,143,329  | \$ 9.3934   | 5,348,824  |

- (1) Of these shares, as of July 1, 2005, 2,045,569 were subject to stock options outstanding under the 2004 Performance Incentive Plan, 11,970,822 were subject to stock options outstanding under the Employee Stock Option Plan, 668,437 were subject to stock options outstanding under the Stock Option Plan for Non-Employee Directors, 164,801 were subject to deferred stock units credited under the Non-Employee Directors Stock-for-Fees Plan that will be paid in an equivalent number of shares, and 1,494,000 were subject to performance share awards granted under the 2004 Performance Incentive Plan (assuming a maximum payout of 300% of the target number of performance shares awarded to the recipient). In addition, this amount does not include an aggregate of 1,442,000 shares of restricted stock outstanding and unvested as of July 1, 2005 under the

2004 Performance Incentive Plan that vest through 2008.

- (2) This number reflects the weighted-average exercise price of outstanding options and has been calculated exclusive of deferred stock units credited under the Non-Employee Directors Stock-for-Fees Plan and performance share awards granted under the 2004 Performance Incentive Plan.
- (3) Of these shares, 2,409,773 remained available for future issuance under the 2004 Performance Incentive Plan, 150,218 remained available for future issuance under the Non-Employee Directors Stock-for-Fees Plan and 2,788,833 shares remained available under the 1993 Employee Stock Purchase Plan as of July 1, 2005.
- (4) Does not include an aggregate of 314,609 shares of restricted stock outstanding and unvested as of July 1, 2005 under the Broad-Based Stock Incentive Plan that vest through 2008.

**Broad-Based Stock Incentive Plan**

On September 30, 1999, the Company's Board of Directors approved the Broad-Based Stock Incentive Plan under which options to purchase 4,799,700 shares of the Company's common stock were outstanding as of July 1, 2005 and 314,609 shares of restricted stock remained unvested as of July 1, 2005. This plan was



**Table of Contents**

intended to qualify as broadly-based under the New York Stock Exchange shareholder approval policy at the time of its adoption and was not submitted to the Company's shareholders for approval. Following approval of the Company's 2004 Performance Incentive Plan by the Company's shareholders in November 2004, no new awards are permitted under the Broad-Based Incentive Plan after such date and, therefore, no shares remain available for grant under the plan.

The stock options that remain outstanding under the plan are not incentive stock options under Section 422 of the Internal Revenue Code. The purchase price per share of common stock subject to each such option granted under the plan is equal to or exceeds 100% of the fair market value of such common stock on the date of grant, and the term of each outstanding option granted under the plan will not exceed ten years from the date of its grant. The shares of restricted common stock that were awarded under the plan and remain unvested are all subject to time-based vesting requirements. All of such shares of restricted stock will vest on or before September 21, 2008 unless such shares are earlier forfeited as required by the plan or by an agreement evidencing the award made under the plan.

The Broad-Based Stock Incentive Plan is administered by the Compensation Committee of the Board of Directors. The committee has broad discretionary authority to construe and interpret the plan. The committee may in its discretion provide financing to a participant in a principal amount sufficient to pay the purchase price of any award and/or to pay the amount of taxes required by law to be withheld with respect to any award. Any such loan shall be subject to all applicable legal requirements and restrictions pertinent thereto. Further, the committee may, through the terms of the award or otherwise, provide for lapse of restrictions on an option or restricted stock, either immediately upon a change of control of the Company (as defined in the plan), or upon termination of the eligible employee's employment within 24 months following a change of control. The committee may also provide for the exercise, payment or lapse of restrictions on an award that is only effective if no provision is made in the change of control transaction.

Agreements evidencing an award made under the plan may be amended, altered or discontinued by the Board or the Compensation Committee, subject to rules of the New York Stock Exchange requiring shareholder approval. These amendments may include: (i) reducing the exercise price of outstanding options; or (ii) after the date of a change of control, impairing the rights of any award holder, without such holder's consent, under any award granted prior to the date of any change of control. No award, or any interest in an award may be transferred in any manner, other than by will or the laws of descent and distribution, unless the agreement evidencing an award expressly states that it is transferable.

**Table of Contents****AUDIT COMMITTEE**

**The following is the report of the Audit Committee of the Company with respect to the Company's audited financial statements for the fiscal year ended July 1, 2005. This report shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act or to the liabilities of Section 18 of the Securities Exchange Act, nor shall any information in this report be incorporated by reference into any past or future filing under the Securities Act or the Securities Exchange Act, except to the extent the Company specifically requests that it be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Securities Exchange Act.**

**Report of the Audit Committee**

The Audit Committee represents the Board in discharging its responsibilities relating to the accounting, reporting, and financial practices of the Company and its subsidiaries, and has general responsibility for oversight and review of the accounting and financial reporting practices, internal controls and accounting and audit activities of the Company and its subsidiaries. The Audit Committee acts pursuant to a written charter. The Audit Committee Charter was originally adopted by the Board of Directors on September 6, 1995 and was most recently amended on March 16, 2005. A copy of the amended charter is attached as Exhibit A to this Proxy Statement and is also available on the Company's website under the Governance section at [www.westerndigital.com](http://www.westerndigital.com). The Board of Directors has determined that each of the members of the Audit Committee qualifies as an independent director under applicable rules of the New York Stock Exchange and the Securities and Exchange Commission.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, the financial reporting process, accounting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Company's independent accountants are responsible for performing an independent audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes. The members of the Audit Committee are not professionally engaged in the practice of accounting or auditing. The Audit Committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent accountants that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

During fiscal 2005, the Audit Committee met a total of fourteen times, six in person and eight via telephone conference. During fiscal 2005, the Audit Committee also met and held discussions with management and KPMG LLP, the Company's independent accountants. The meetings were conducted so as to encourage communication among the members of the Audit Committee, management and the independent accountants. The Audit Committee has discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) relating to the conduct of the audit.

The Audit Committee reviewed and discussed the audited financial statements of the Company for the fiscal year ended July 1, 2005 with management and the independent accountants. The Board of Directors, including the Audit Committee, received an opinion of KPMG LLP as to the conformity of such audited consolidated financial statements with GAAP.

The Audit Committee discussed with KPMG LLP the overall scope and plan for its audit. The Audit Committee met regularly with KPMG LLP, with and without management present, to discuss the results of its examination, its evaluation of the Company's internal control over financial reporting and the overall quality of the Company's accounting principles. In addition, the Audit Committee has received written disclosures and a letter from KPMG LLP regarding its independence from the Company as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with KPMG LLP the independence of that firm. The Audit Committee also reviewed, among other things, the amount of fees paid to KPMG LLP for audit and non-audit services.



**Table of Contents**

Based upon such reviews and discussions, the Audit Committee has recommended to the Board of Directors of the Company that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended July 1, 2005, for filing with the Securities and Exchange Commission. The Audit Committee also appointed KPMG LLP to serve as the Company's independent accountants for the fiscal year ending June 30, 2006.

AUDIT COMMITTEE

Henry T. DeNero, Chairman  
Kathleen A. Cote  
William L. Kimsey  
Thomas E. Pardun

September 20, 2005

**Table of Contents****PROPOSAL 4****RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The accounting firm of KPMG LLP, certified public accountants, has served the Company as its independent accountants since its incorporation in 1970. The Audit Committee of the Board of Directors has again appointed KPMG to serve as the Company's independent accountants for the fiscal year ending June 30, 2006. The appointment of KPMG is not required to be submitted for shareholder approval, but the Board of Directors has elected to seek ratification of the appointment of the independent accountants by the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the Annual Meeting. If a majority of the shares represented and entitled to vote do not ratify this appointment, the Audit Committee will reconsider its appointment of KPMG and will either continue to retain this firm or appoint new independent accountants. One or more representatives of KPMG are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Following are the fees paid by the Company to KPMG for the fiscal years ended July 1, 2005 and July 2, 2004:

| Description of Professional Service  | 2005         | 2004       |
|--|--------------|------------|
| <b>Audit Fees</b> professional services rendered for the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Form 10-Qs | \$ 1,532,000 | \$ 966,000 |
| <b>Audit-Related Fees</b> assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements(1)                      | 98,000       | 339,000    |
| <b>Tax Fees</b> professional services rendered for tax compliance, tax advice and tax planning(2)  | 262,000      | 298,000    |
| <b>All Other Fees</b> None   | 0            | 0          |

(1) Audit-Related Fees billed in fiscal 2005 and fiscal 2004 consisted of audits of the Company's distributors, accounting assistance to the Company's subsidiaries, and audits performed in connection with the Western Digital Corporation 401(k) Plan. Audit-Related Fees billed in fiscal 2004 also included services in connection with the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Tax Fees in fiscal 2005 and fiscal 2004 consisted of tax compliance assistance and related services and transfer pricing review.

The Audit Committee has adopted a policy regarding the pre-approval of audit and non-audit services to be provided by the Company's independent accountants. The policy provides that KPMG LLP is required to seek pre-approval by the Audit Committee of all audit and permissible non-audit services by providing a description of the services to be performed and specific fee estimates for each such service. The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve audit-related and permissible non-audit services and associated fees up to a maximum for any one audit-related or non-audit service of US\$50,000, provided that the Chairman shall report any decisions to pre-approve such audit-related or non-audit services and fees to the full Audit Committee at its next regular meeting for ratification. One-hundred percent (100%) of the Audit-Related Fees and Tax Fees billed by KPMG during fiscal 2004 and fiscal 2005 were approved by the Audit Committee pursuant to regulations of the Securities and Exchange Commission.

**Vote Required and Recommendation of the Board of Directors**

The affirmative vote of a majority of the shares of the Company's common stock represented in person or by proxy at the Annual Meeting and entitled to vote (which shares must also constitute at least the required quorum) is required for ratification of the appointment of KPMG LLP as the Company's independent accountants for the fiscal year ending

June 30, 2006.

**Table of Contents**

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 4 TO RATIFY THE APPOINTMENT OF KPMG LLP AS THE INDEPENDENT ACCOUNTANTS OF THE COMPANY FOR THE FISCAL YEAR ENDING JUNE 30, 2006.**

**SHAREHOLDER PROPOSALS FOR 2006**

*Proposals for Inclusion in Proxy Statement.* For your proposal or director nomination to be considered for inclusion in the proxy statement and form of proxy for the Company's 2006 Annual Meeting of Shareholders, your written proposal must be received by the Secretary of the Company at the Company's principal executive offices no later than June 14, 2006. If the date of the 2006 Annual Meeting is changed by more than 30 days from the date of this year's Annual Meeting, then the deadline is a reasonable time before the Company begins to print and mail its proxy materials for the 2006 Annual Meeting, provided that you also meet the additional deadline for shareholder proposals required by the Company's Bylaws and summarized below. You should also be aware that your proposal or director nomination must comply with Securities and Exchange Commission regulations regarding inclusion of shareholder proposals in company-sponsored proxy materials.

*Proposals to be Addressed at Meeting.* In addition, in order for your proposal or director nomination to be considered at the Company's 2006 Annual Meeting (including from the floor if you did not comply with the deadline above for inclusion of your proposal or director nomination in the Company's proxy materials), the Company's Bylaws require that, among other things, shareholders give written notice of any proposal or nomination of a director to the Secretary of the Company at the Company's principal executive offices no earlier than the close of business on July 20, 2006 and no later than the close of business on August 21, 2006, regardless of any postponements, deferrals or adjournments of the 2006 Annual Meeting to a later date. Notwithstanding the foregoing, in the event that the date of the 2006 Annual Meeting is more than 30 days before or more than 70 days after the first anniversary of the 2005 Annual Meeting, written notice by a shareholder must be given no earlier than the close of business 120 days prior to the date of the 2006 Annual Meeting and no later than 90 days prior to the date of the 2006 Annual Meeting or the close of business on the tenth day following the day on which public announcement of the 2006 Annual Meeting is made. The Company's 2006 Annual Meeting of Shareholders is currently scheduled to be held on November 9, 2006. Shareholder proposals or nominations for director that do not meet the notice requirements set forth above and further described in Section 2.11 of the Company's Bylaws will not be acted upon at the 2006 Annual Meeting.

**ANNUAL REPORT**

The Company's 2005 Annual Report on Form 10-K has been mailed to shareholders and posted on the Internet at [www.westerndigital.com](http://www.westerndigital.com) concurrently with the mailing of this Proxy Statement. The information on the Company's web site is not incorporated herein and shall not be deemed to be a part of this proxy solicitation material. **The Company will provide, without charge, a copy of its 2005 Annual Report on Form 10-K for the year ended July 1, 2005 (including the financial statements but excluding the exhibits thereto) upon the written request of any shareholder or beneficial owner of the Company's common stock. Requests should be directed to the following address:**

**Raymond M. Bukaty  
Secretary  
Western Digital Corporation  
20511 Lake Forest Drive  
Lake Forest, California 92630-7741**

**Table of Contents**

**OTHER MATTERS**

The Board of Directors of the Company does not know of any other matters that are to be presented for action at the Annual Meeting. Should any other matters come before the Annual Meeting or any adjournments or postponements thereof, the persons named in the enclosed proxy will have the discretionary authority to vote all proxies received with respect to such matters in accordance with their judgment.

**DELIVERY OF DOCUMENTS TO SHAREHOLDERS SHARING AN ADDRESS**

In accordance with the rules of the Securities and Exchange Commission, only one Proxy Statement and the Company's Annual Report are being delivered to multiple shareholders that share the same address unless the Company has received contrary instructions from one or more of such shareholders. Upon oral or written request, the Company will deliver promptly a separate copy of this Proxy Statement or the Annual Report to a shareholder at a shared address to which a single copy of this Proxy Statement or the Annual Report was delivered. If you are a shareholder at a shared address to which a single copy of this Proxy Statement or the Annual Report was delivered and you desire to receive a separate copy of this Proxy Statement or the Annual Report, or if you desire to notify the Company that you wish to receive a separate proxy statement or annual report in the future, or if you are a shareholder at a shared address to which multiple copies of this Proxy Statement or the Annual Report were delivered and you desire to receive one copy in the future, please submit your request by mail to Investor Relations, Western Digital Corporation, 20511 Lake Forest Drive, Lake Forest, California 92630-7741 or by telephone to Western Digital Investor Relations at 1-800-695-6399.

If a broker or other record holder holds your Company shares, please contact your broker or other record holder directly if you have questions, require additional copies of this Proxy Statement or the Annual Report, or wish to receive multiple reports by revoking your consent to householding.

**VOTING VIA THE INTERNET OR BY TELEPHONE**

Shareholders may submit proxies by mail, telephone or the Internet. Your telephone or Internet proxy authorizes the proxies named on the enclosed proxy card to vote your shares to the same extent as if you marked, signed, dated and returned the enclosed proxy card. Shareholders of record may submit proxies telephonically by calling 1 (800) 690-6903 (within the U.S. and Canada only, toll-free) and following the recorded instructions. Shareholders of record may submit a proxy via the Internet by going to the website at [www.proxyvote.com](http://www.proxyvote.com) and following the instructions to obtain your records and to create an electronic voting instruction form. Beneficial shareholders who hold their shares in street name may vote by telephone or by Internet by following the instructions specified on the voting instruction cards provided by their broker, trustee or nominee. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' instructions have been recorded properly. Proxies submitted via the Internet or by telephone must be received by 11:59 p.m. Eastern Standard Time on November 16, 2005. If you submit your proxy or voting instruction by telephone or Internet there is no need to return the enclosed proxy card or voting instruction card. Submitting your proxy or voting instruction via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting, although beneficial shareholders must obtain a legal proxy from the broker, trustee or nominee that holds their shares giving them the right to vote the shares at the Annual Meeting in order to vote in person at the Annual Meeting. The granting of proxies electronically is permitted by Section 212(c)(2) of the Delaware General Corporation Law.

**EXPENSES OF SOLICITATION**

The accompanying proxy is being solicited on behalf of the Board of Directors of the Company. The cost of preparing, assembling and mailing the Notice of Annual Meeting of Shareholders, this Proxy Statement and form of proxy, the cost of making such materials available on the Internet and the cost of soliciting proxies will be paid by the Company. In addition to use of the mails, proxies may be solicited in person or by telephone, facsimile or other means of communication by certain of the directors, officers, and regular



**Table of Contents**

employees of the Company who will not receive any additional compensation for such solicitation. The Company has also engaged D.F. King & Co., Inc. to assist the Company in connection with the solicitation of proxies for the Annual Meeting for a fee that is not expected to exceed \$12,000 plus a reasonable amount to cover expenses. The Company has agreed to indemnify D.F. King & Co. against certain liabilities arising out of or in connection with this engagement. The Company will also reimburse brokers or other persons holding the Company's common stock in their names or the names of their nominees for the expenses of forwarding soliciting material to their principals.

Lake Forest, California

October 4, 2005

**SHAREHOLDERS ARE URGED TO SPECIFY THEIR CHOICES AND DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD OR VOTING INSTRUCTION CARD IN THE ENCLOSED ENVELOPE OR PROVIDE VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET. A PROMPT RESPONSE IS HELPFUL AND YOUR COOPERATION WILL BE APPRECIATED.**

**Table of Contents**

**EXHIBIT A**

**AUDIT COMMITTEE CHARTER**

**I. Purposes**

The purposes of the Audit Committee (the Committee) shall be to: assist the Company's Board of Directors (the Board) in discharging its oversight responsibility relating to: (i) the accounting, reporting and financial practices of the Company and its subsidiaries, including the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent accountants' qualifications and independence; and (iv) the performance of the Company's internal audit function and the Company's independent accountants; and

prepare the report required by the rules of the Securities and Exchange Commission (the SEC) to be included in the Company's annual proxy statement.

**II. Membership**

1. The Committee shall be composed of three or more directors, all of whom shall be independent Directors, as defined by applicable law and the rules of the SEC and the New York Stock Exchange in effect from time to time (subject to any exceptions allowed by such rules and any waivers granted by such authorities). The Chair and members of the Committee shall be appointed annually by the Board on recommendation of the Governance Committee. Vacancies shall be filled by approval of the Board on recommendation of the Governance Committee, and any member of the Committee may be removed by the Board.

2. Each member of the Committee shall be financially literate, as determined in the Board's business judgment, and at least one member shall be an audit committee financial expert, as determined by the Board pursuant to rules promulgated by the SEC.

3. No member of the Committee shall serve simultaneously on the audit committee of more than three public companies (including the Company) except with the prior approval of the Board.

**III. Meetings**

1. The Committee shall meet at least four times a year in accordance with the annual meeting schedule or at the call of the Chair or a majority of the members. A majority of the members of the Committee shall constitute a quorum for the transaction of business.

2. The Committee shall meet separately in executive session, periodically, with each of management, the Company's principal internal auditor (or other personnel responsible for the internal audit function) and the independent accountants.

3. Procedures fixed by the Committee shall be subject to any applicable provision of the Company's By-laws. Written minutes of each meeting shall be duly filed in the Company records, and reports of meetings of the Committee shall be made to the Board no later than the next regularly scheduled Board meeting following the Committee meeting and shall be accompanied by any recommendations to the Board approved by the Committee.

**IV. Key Responsibilities**

1. Independent Accountants

a. Be solely and directly responsible for the appointment, compensation, retention and oversight of the work of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report

**Table of Contents**

or performing other audit, review or attest services for the Company and, where appropriate, the termination and replacement of the independent accountants. The independent accountants shall report directly to the Committee.

b. At least annually, evaluate the independent accountants' qualifications, performance and independence, including a review and evaluation of the lead partner of the independent accountant. Confirm that the lead or coordinating audit partner having primary responsibility for the audit or review and the concurring or reviewing audit partner of the independent auditors are rotated at least every five years and that other audit partners (as defined by the SEC) are rotated at least every seven years in accordance with rules promulgated by the SEC. Consider whether there should also be a regular rotation of the independent accountants.

c. Review, evaluate and approve the annual engagement proposal of the independent accountants (including the proposed scope, procedures and timing of the annual audit).

d. Pre-approve all auditing services and all non-audit services permitted to be performed by the independent accountants. Such pre-approval may be given as part of the Committee's approval of the scope of the engagement of the independent accountants or on an engagement-by-engagement basis or pursuant to pre-established policies. Audit or non-audit services whose cost is \$50,000 or less may be pre-approved by the Chairman of the Audit Committee. The Chairman shall report such approval decisions to the full Committee at its next regularly scheduled meeting. In addition, the authority to pre-approve other non-audit services may be delegated by the Committee to one or more of its members, but such member's or members' non-audit service approval decisions must be reported to the full Committee at its next regularly scheduled meeting.

e. Obtain and review, at least annually, a report by the independent accountants describing: (i) the independent accountants' internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the independent accountants, and any steps taken to deal with any such issues; and (iii) all relationships between the independent accountants and the Company (to assess the independence of the independent accountants).

f. Obtain and review prior to the filing of any audit report by the Company's independent accountants a report from the independent accountants regarding: (i) all critical accounting policies and procedures to be used by the Company; (ii) all alternative treatments within generally accepted accounting principles (GAAP) for policies and practices related to material items that have been discussed with the Company's management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants; and (iii) all other material written communications between the independent accountants and management, including any management letter or schedule of unadjusted differences.

g. Review and discuss with the independent accountants any difficulties the independent accountants encountered in the course of their audit work, including any restrictions on the scope of the independent accountants' activities or on access to requested information, and any significant disagreements with management and management's response to such problems or difficulties.

h. Establish policies for the hiring of any current or former employee of the independent accountants.

2. *Financial Reporting and Reporting Processes*

a. Review and discuss with management and the independent accountants the annual audited and quarterly financial statements of the Company and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations prior to filing such financial statements with the SEC or public distribution thereof, including (as appropriate): (i) major issues regarding accounting principles and financial statement presentations, any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) analyses prepared by management and/or the independent accountants setting forth significant financial reporting

**Table of Contents**

issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative accounting methods on the financial statements in accordance with GAAP; and (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

b. Review and discuss generally with management the general types of information to be disclosed and the type of presentation to be made in the Company's earnings press releases, as well as financial information and earnings guidance, if any, provided to analysts and ratings agencies.

c. Review periodically the adequacy of the Company's accounting and financial personnel resources.

d. Periodically review and discuss the Company's internal control over financial reporting (with particular emphasis on the scope and performance of the internal audit function), and review and discuss with the principal internal auditor of the Company the scope and results of the internal audit program, including deficiencies and significant changes in internal controls reported to the Committee by the independent auditor or management.

e. Review and consider any other matters relative to the audit of the Company's accounts and the preparation of its financial statements and reports that the Committee, in its discretion, deems appropriate.

3. Legal and Regulatory Compliance

a. Review and discuss the Company's policies with respect to risk assessment and risk management.

b. Prepare an audit committee report as required by the SEC to be included in the Company's annual proxy statement.

c. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company regarding questionable accounting and auditing matters.

d. Review material pending legal proceedings involving the Company and other material contingent liabilities.

4. Evaluations; Investigations; Advisers

a. Evaluate annually the performance of the Committee and the adequacy of this Charter, and recommend to the Board any proposed changes to this Charter.

b. The Committee may also, from time to time or as directed by the Board, direct and review special investigations, receive periodic reports on legal and tax matters, review the Company's legal compliance policies and practices, including its Global Code of Conduct, and report to the Board as appropriate concerning these reviews, investigations and reports.

c. The Committee shall have the authority to retain such outside counsel, accountants, experts and other advisors as it determines appropriate to assist the Committee in the performance of its functions. The Committee is specifically empowered to retain these advisors without seeking approval from the Board, and in connection therewith to receive appropriate funding, determined by it, from the Company.

d. The Committee has the power to determine the level and cost of ordinary administrative expenses necessary or appropriate in carrying out its duties, with such costs to be borne by the Company.

Approved by Board of Directors: March 16, 2005

**Table of Contents**

**EXHIBIT B**

**WESTERN DIGITAL CORPORATION  
2005 EMPLOYEE STOCK PURCHASE PLAN**

The Western Digital Corporation 2005 Employee Stock Purchase Plan (the Plan ) shall be established and operated in accordance with the following terms and provisions.

1. Definitions.

As used in the Plan the following terms shall have the meanings set forth below:

(a) *Board* means the Board of Directors of the Company.

(b) *Code* means the Internal Revenue Code of 1986, as amended.

(c) *Committee* means the committee appointed by the Board to administer the Plan as described in Section 4 below.

(d) *Common Stock* means the common stock, \$0.01 par value, of the Company.

(e) *Company* means Western Digital Corporation, a Delaware corporation.

(f) *Continuous Employment* means the absence of any interruption or termination of service as an Employee with the Company and/or its Participating Subsidiaries. Continuous Employment shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute. If a Participating Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have had a break in Continuous Employment for purposes of the Plan at the time the Participating Subsidiary ceased to be a Subsidiary, unless such person continues as an Employee in respect of another Company entity.

(g) *Eligible Compensation* means, with respect to each Participant for each pay period, the full salary and wages paid to such Participant by the Company or a Participating Subsidiary, including commissions, bonuses (to the extent not excluded below), overtime pay and shift differentials. Except as otherwise determined by the Committee, *Eligible Compensation* does not include

(i) any amounts contributed by the Company or a Participating Subsidiary to any pension plan or plan of deferred compensation,

(ii) any automobile or relocation allowances (or reimbursement for any such expenses),

(iii) any amounts paid as a starting bonus or finder's fee,

(iv) any amounts realized from the exercise of qualified or non-qualified stock options, or

(v) any amounts paid by the Company or a Participating Subsidiary for other fringe benefits, such as health and welfare, hospitalization and group life insurance benefits, or perquisites, or paid in lieu of such benefits, such as cash-out of credits generated under a plan qualified under Code Section 125.

(h) *Eligible Employee* means an Employee who is

(i) customarily employed for at least twenty (20) hours per week and more than five months in a calendar year, and

(ii) eligible to participate in the Plan as described in Section 5 below.

If any person is (a) an Employee due to any classification or reclassification of the person as an employee or common-law employee of the Company or one of its Participating Subsidiaries by reason of action taken by any tax or other governmental authority, or (b) an Employee who has a written employment agreement providing that the Employee shall not participate in the Plan until at least two

B-1

---

**Table of Contents**

(2) years of Continuous Employment, then such Employee must be employed for at least two (2) years by the Company or one of its Participating Subsidiaries as well as meet the criteria set forth above in subsections (i) and (ii) in order to be an Eligible Employee.

(i) *Employee* means each person currently employed by the Company or one of its Participating Subsidiaries. It shall not include any person who is recorded on the books and records of the Company or one of its Participating Subsidiaries as an independent contractor or consultant or a worker provided by a temporary staffing agency.

(j) *Enrollment Date* means the first day of each Offering Period.

(k) *Exercise Date* means one or more dates during an Offering Period, as established by the Committee in accordance with Section 6 hereof, on which options to purchase Common Stock granted under the Plan shall be exercised as provided in Section 11 hereof.

(l) *Exercise Period* means one or more periods during an Offering Period, the duration of which shall be established by the Committee in accordance with Section 6 hereof, during which payroll deductions are accumulated for purposes of purchasing Common Stock under the Plan on each Exercise Date.

(m) *Exercise Price* means the price per share of shares offered in a given Offering Period determined as provided in Section 10 below.

(n) *Fair Market Value* means, with respect to a share of Common Stock as of any Enrollment Date or Exercise Date (or New Exercise Date, as the case may be), the closing price of such Common Stock on the New York Stock Exchange on such date, as reported in The Wall Street Journal. In the event that such a closing price is not available for an Enrollment Date or an Exercise Date, or New Exercise Date, the Fair Market Value of a share of Common Stock on such date shall be the closing price of a share of the Common Stock on the New York Stock Exchange on the last business day prior to such date or such other amount as may be determined by the Committee by any fair and reasonable means.

(o) *New Exercise Date* means the new exercise date set by the Board in the case of a sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation or other entity in certain circumstances as described in Section 15(b).

(p) *Offering Period* means a period of time with respect to which options are granted under the Plan, the time and duration of which shall be established by the Committee in accordance with Section 6.

(q) *Parent* means any corporation, domestic or foreign, which owns, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests of the Company and that otherwise qualifies as a parent corporation within the meaning of Section 424(e) of the Code or any successor thereto.

(r) *Participant* means an Eligible Employee who has elected to participate in the Plan by filing an enrollment agreement with the Company as provided in Section 7 below.

(s) *Participating Subsidiary* means any Subsidiary other than a Subsidiary excluded from participation in the Plan by the Committee, in its sole discretion.

(t) *Plan* means this Western Digital Corporation 2005 Employee Stock Purchase Plan.

(u) *Subsidiary* means any corporation, domestic or foreign, of which the Company owns, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests and that otherwise qualifies as a subsidiary corporation within the meaning of Section 424(f) of the Code or any successor thereto.

2. *Purpose of the Plan.*

The purpose of the Plan is to provide an incentive for present and future Employees of the Company and its Participating Subsidiaries to acquire a proprietary interest (or increase an existing proprietary interest) in

B-2

---



**Table of Contents**

the Company through the purchase of Common Stock. It is the intention of the Company that the Plan qualify as an employee stock purchase plan under Section 423 of the Code. Accordingly, the provisions of the Plan shall be administered, interpreted and construed in a manner consistent with the requirements of that section of the Code.

3. *Shares Reserved for the Plan.*

(a) There shall be reserved for issuance and purchase by Participants under the Plan an aggregate of 5,000,000 shares of Common Stock, subject to adjustment as provided in Section 15 below. Shares of Common Stock subject to the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases. If and to the extent that any right to purchase reserved shares shall not be exercised by any Participant for any reason or if such right to purchase shall terminate as provided herein, shares that have not been so purchased hereunder shall again become available for the purposes of the Plan unless the Plan shall have been terminated, but all shares sold under the Plan, regardless of source, shall be counted against the limitation set forth above.

(b) From time to time and without shareholder approval, the Committee may fix a maximum limit on the number of shares that may be acquired by any individual during an Exercise Period under the Plan, which limit shall be effective no earlier than the first Offering Period that commences after the determination of such limit by the Committee; provided, however, that any adjustment to such limit pursuant to Section 15 shall apply to any Exercise Period in progress at the time such adjustment is made.

4. *Administration of the Plan.*

(a) The Plan shall be administered by a Committee appointed by, and which shall serve at the pleasure of, the Board. The Committee shall consist of two or more directors, each of whom is a Non-Employee Director within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time. The Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, all of which actions and determinations shall be final, conclusive and binding on all persons.

(b) The Committee may request advice or assistance or employ such other persons as it in its absolute discretion deems necessary or appropriate for the proper administration of the Plan, including, but not limited to employing a brokerage firm, bank or other financial institution to assist in the purchase of shares, delivery of reports or other administrative aspects of the Plan.

(c) Neither the Board nor any Committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

5. *Eligibility to Participate in the Plan.*

Subject to limitations imposed by Section 423(b) of the Code, any Eligible Employee who is employed by the Company or a Participating Subsidiary on an Enrollment Date shall be eligible to participate in the Plan for the Offering Period beginning on that Enrollment Date.

6. *Offering Periods.*

During the term of the Plan, the Company will grant options to purchase shares of Common Stock in each Offering Period to all Participants in that Offering Period. The Committee shall determine from time to time, subject to the requirements of Section 423 of the Code and no later than the first Offering Period to commence under the Plan, when Offering Periods will be offered during the term of the Plan and shall establish the Enrollment Date(s), the number and duration of the Exercise Period(s), and the Exercise Date(s) for such Offering Period(s), which determinations shall be effective no later than the first Offering

**Table of Contents**

Period that commences after they are made by the Committee and provided, however, that no Offering Period may exceed twenty-four (24) months in duration. To the extent consistent with Section 423 of the Code, the Committee may provide for a new Offering Period to commence prior to the termination of one or more preceding Offering Periods.

7. *Election to Participate in the Plan.*

(a) Each Eligible Employee may elect to participate in an Offering Period by completing an enrollment agreement on a form approved by and in a manner prescribed by the Committee (or its delegate) or, if the Committee does not require enrollment forms, by otherwise completing such enrollment procedures as the Committee may prescribe. Such agreement must be filed with the Company or such other procedures must be completed, as applicable, prior to the applicable Enrollment Date, unless the Committee establishes an earlier deadline for filing the enrollment form for all Eligible Employees with respect to a given Offering Period. An Eligible Employee may participate in an Offering Period only if, as of the Enrollment Date of such Offering Period, such Eligible Employee is not participating in any prior Offering Period which is continuing at the time of such proposed enrollment.

(b) Payroll deductions for a Participant shall commence on the first payroll date on or following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 12.

(c) Unless a Participant elects otherwise prior to the Enrollment Date of the immediately succeeding Offering Period, an Eligible Employee who is participating in an Offering Period as of the last Exercise Date of such Offering Period (the Prior Offering Period) shall be deemed (i) to have elected to participate in the immediately succeeding Offering Period and (ii) to have authorized the same payroll deduction for such immediately succeeding Offering Period as was in effect for such Participant immediately prior to the expiration or termination of the Prior Offering Period.

(d) In its discretion, the Committee may determine (with such determination to be effective no earlier than the first Offering Period that commences after such determination by the Committee) that the participation of all Participants on an Exercise Date in an Offering Period that includes more than one Exercise Period shall terminate and such Participants shall be enrolled in a new Offering Period commencing immediately following such Exercise Date if, during such Offering Period, the Fair Market Value determined as of such Exercise Date within such Offering Period is lower than the Fair Market Value determined as of the Enrollment Date of such Offering Period. In such event, each of such Participants shall be deemed for purposes of this Plan (i) to have elected to participate in such new Offering Period, and (ii) to have authorized the same payroll deduction for such new Offering Period as was in effect for such Participant immediately prior to the Termination Date.

8. *Payroll Deductions.*

(a) All Participant contributions to the Plan shall be made only by payroll deductions. At the time a Participant files the enrollment agreement with respect to an Offering Period, the Participant shall authorize payroll deductions to be made on each payroll date during the Offering Period in an amount up to 10% (or such other limit as the Committee may establish prior to the start of the applicable Offering Period) of the Eligible Compensation which the Participant receives on each payroll date during such Offering Period. The Committee also may prescribe other limits, rules or procedures for payroll deductions. Unless otherwise provided by the Committee, the amount of such payroll deductions shall be a whole percentage (i.e., 1%, 2%, 3%, etc.) of the Participant's Eligible Compensation.

(b) All payroll deductions made for a Participant shall be deposited in the Company's general corporate account and shall be credited to the Participant's account under the Plan. No interest shall accrue or be credited with respect to the payroll deductions of a Participant under the Plan. A Participant may not make any additional payments into such account. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

**Table of Contents**

(c) A Participant may discontinue participation in the Plan as provided in Section 12. Unless otherwise provided by the Committee in advance of an Offering Period, a Participant may at any time during the Offering Period (but no more than four times in any calendar year) reduce or increase (subject to the limitations of Section 8(a) above) the rate of his or her payroll deductions by completing and filing with the Company a change notice in the form provided by the Company. Any such reduction in the rate of a Participant's payroll deductions shall be effective as of the pay period specified by the Participant in the Participant's change notice, but in no event sooner than the first pay period ending more than fifteen (15) days after the Participant files the change notice with the Company. Any such increase in the rate of a Participant's payroll deductions shall be effective as of the first date of the next Exercise Period within such Offering Period.

9. *Grant of Options.*

(a) On the Enrollment Date of each Offering Period, subject to the limitations set forth in Sections 3, 9(b) and 17 hereof, each Participant shall be granted an option to purchase on each Exercise Date during such Offering Period up to a number of shares of the Common Stock determined by dividing such Participant's payroll deductions accumulated during the Exercise Period ending on such Exercise Date by the Exercise Price for such Exercise Period (determined as provided in Section 10 below), provided that the number of shares subject to the option shall not exceed five (5) times the number of shares determined by dividing (i) 10% (or such other maximum limit on a Participant's payroll deductions for the Offering Period as the Committee may establish pursuant to Section 8(a)) of the Participant's Eligible Compensation over the Offering Period (determined based upon the Participant's rate of Eligible Compensation in effect as of the Enrollment Date), by (ii) the Fair Market Value of a share of the Common Stock on the Enrollment Date multiplied by the percentage (not less than 85%) used to calculate the Exercise Price for that Offering Period.

(b) Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted an option under the Plan (i) if, immediately after the grant, such Participant (or any other person whose stock would be attributed to such Participant pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Parent or any Subsidiary of the Company, or (ii) which permits such Participant's rights to purchase stock under all employee stock purchase plans of the Company, its Subsidiaries and any Parent to accrue at a rate which exceeds \$25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

10. *Exercise Price.*

The Committee shall establish from time to time (but no later than the first Offering Period to commence under the Plan) the method for determining the Exercise Price for each Offering Period under the Plan in accordance with this Section 10, which determination shall be effective no earlier than the first Offering Period that commences after such determination is made by the Committee. In making its determination, the Committee may provide that the Exercise Price for an Offering Period shall be determined by applying a discount amount (not to exceed 15%) to either (1) the Fair Market Value of a share of Common Stock on the Enrollment Date of such Offering Period, or (2) the Fair Market Value of a share of Common Stock on the applicable Exercise Date, or (3) the lesser of the Fair Market Value of a share on the Enrollment Date of such Offering Period or the Fair Market Value of a share on the applicable Exercise Date. Notwithstanding anything to the contrary in the preceding provisions of this Section 10, in no event shall the Exercise Price per share be less than the par value of a share of Common Stock.

11. *Exercise of Options.*

Unless a Participant withdraws from the Plan as provided in Section 12, the Participant's option for the purchase of shares will be exercised automatically on each Exercise Date of the Offering Period, and the maximum number of full shares subject to option will be purchased for the Participant at the applicable Exercise Price with the accumulated payroll deductions in the Participant's account. Any amount remaining in the Participant's account after an Exercise Date that is not sufficient to purchase a whole share shall be held

**Table of Contents**

in the account until the next Exercise Date in such Offering Period, unless the Offering Period has been over-subscribed or has terminated with such Exercise Date, in which event (or in the event any other applicable Plan limit has been exceeded by that Participant in that Offering Period) such amount shall be refunded to the Participant.

12. *Withdrawal; Termination of Employment.*

(a) A Participant may withdraw all but not less than all of the payroll deductions credited to the Participant's account under the Plan at any time by giving written notice to the Company. All of the Participant's payroll deductions credited to the Participant's account will be paid to him or her promptly after receipt of the Participant's notice of withdrawal, the Participant's participation in the Plan will be automatically terminated, and no further payroll deductions for the purchase of shares will be made. Payroll deductions will not resume on behalf of a Participant who has withdrawn from the Plan unless written notice is delivered to the Company within the open enrollment period preceding the commencement of an Exercise Period directing the Company to resume payroll deductions.

(b) Upon termination of the Participant's Continuous Employment prior to the Exercise Date of an Offering Period for any reason, including retirement or death, the payroll deductions credited to the Participant's account will be returned to the Participant or, in the case of death, to the Participant's estate, and the Participant's options to purchase shares under the Plan will be automatically terminated.

(c) In the event a Participant fails to maintain Continuous Employment for at least twenty (20) hours per week during an Offering Period, the Participant will be deemed to have elected to withdraw from the Plan, the payroll deductions credited to the Participant's account will be returned to the Participant, and the Participant's options to purchase shares under the Plan will be terminated.

(d) A Participant's withdrawal from an Offering Period will not have any effect upon the Participant's eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

13. *Transferability.*

Neither payroll deductions credited to a Participant's account nor options to purchase Common Stock granted under the Plan may be transferred, assigned, pledged or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. Options granted under the Plan are exercisable during a Participant's lifetime only by the Participant.

14. *Reports.*

Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to Participants promptly following each Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

15. *Adjustments Upon Changes in Capitalization.*

(a) If the outstanding shares of Common Stock are increased or decreased, or are changed into or are exchanged for a different number or kind of shares, as a result of one or more reorganizations, restructurings, recapitalizations, reclassifications, stock splits, reverse stock splits, stock dividends or any similar unusual or extraordinary corporate transaction, appropriate adjustment shall be made in the number and/or kind of shares, and the Exercise Price thereof, which may be issued in the aggregate and to any Participant upon exercise of options granted under the Plan.

(b) In the event of the proposed dissolution or liquidation of the Company, each Offering Period then in progress will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation or entity, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or entity or a parent or subsidiary of such successor corporation or entity, unless the Committee determines, in the exercise

**Table of Contents**

of its sole discretion and in lieu of such assumption or substitution, that the Participants shall have the right to exercise the option as to all of the optioned stock. If the Committee makes an option fully exercisable under these circumstances in lieu of assumption or substitution, each Offering Period then in progress shall be shortened and a new Exercise Date shall be set (the New Exercise Date ), as of which date any Offering Period then in progress will terminate. The New Exercise Date shall be on or before the date of consummation of the transaction and the Committee shall notify each participant in writing, at least ten (10) days prior to the New Exercise Date, that the Exercise Date for his or her option has been changed to the New Exercise Date and that his or her option will be exercised automatically on the New Exercise Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 12. The Exercise Price on the New Exercise Date shall be determined as provided in Section 10 hereof, and for purposes of determining such Exercise Price, the New Exercise Date shall be treated as the Exercise Date.

(c) In all cases, the Committee shall have full discretion to exercise any of the powers and authority provided under this Section 15, and the Committee's actions hereunder shall be final and binding on all Participants. No fractional shares of stock shall be issued under the Plan pursuant to any adjustment authorized under the provisions of this Section 15.

16. Amendment of the Plan.

The Board may at any time, or from time to time, amend or suspend the Plan, in whole or in part and without notice; provided, however, that the Plan may not be amended in any way that will cause rights issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in Section 423 of the Code or any successor thereto, including, without limitation, shareholder approval if required. No options may be granted during any suspension of the Plan or after a termination of the Plan pursuant to Section 17(b) below, but the Committee will retain jurisdiction as to options then outstanding in accordance with the terms of the Plan. No amendment, suspension or termination pursuant to this Section 16 or Section 17 shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any right or benefits of such Participant or obligations of the Company under any option granted under the Plan prior to the effective date of such change; provided that the Board may amend, suspend or terminate the Plan as to any outstanding options granted under the Plan for an Offering Period, effective as of any Exercise Date within that Offering Period, without the consent of the Participants to whom such options were granted. In no event shall changes contemplated by Section 7(d) or Section 15 be deemed to constitute changes or amendments requiring Participant consent.

17. Termination of the Plan.

The Plan and all rights of Employees hereunder shall terminate:

(a) on the Exercise Date that Participants would become entitled to purchase a number of shares greater than the number of reserved shares remaining available for purchase under the Plan if the final sentence in this Section 17 were not applied; or

(b) at any time, at the discretion of the Board.

In the event that the Plan terminates under circumstances described in Section 17(a) above, reserved shares remaining as of the termination date shall be sold to Participants on a pro rata basis.

18. Notices.

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

19. Shareholder Approval.

Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. If such shareholder approval is obtained at a duly held shareholders meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon.



**Table of Contents**

20. *Conditions Upon Issuance of Shares.*

(a) The Plan, the grant and exercise of options to purchase shares of Common Stock under the Plan, and the Company's obligation to sell and deliver shares upon the exercise of options to purchase shares shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required.

(b) The Company may make such provisions as it deems appropriate for withholding by the Company pursuant to federal or state income tax laws of such amounts as the Company determines it is required to withhold in connection with the purchase or sale by a Participant of any Common Stock acquired pursuant to the Plan. The Company may require a Participant to satisfy any relevant tax requirements before authorizing any issuance of Common Stock to such Participant.

21. *Employees Rights.*

(a) Nothing in the Plan (or in any other document related to the Plan) will confer upon any Eligible Employee or Participant any right to continue in the employ or other service of the Company or any Subsidiary, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Company or any Subsidiary to change such person's compensation or other benefits or to terminate his or her employment or other service, with or without cause. Nothing contained in this Section 21(a), however, is intended to adversely affect any express independent right of any such person under a separate employment or service contract.

(b) No Participant or other person will have any right, title or interest in any fund or in any specific asset (including shares of Common Stock) of the Company or any Subsidiary by reason of any option hereunder. Neither the provisions of the Plan (or of any other document related to the Plan), nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any Subsidiary and any Participant or other person. To the extent that a Participant or other person acquires a right to receive payment pursuant to the Plan, such right will be no greater than the right of any unsecured general creditor of the Company.

(c) A Participant will not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the Participant. No adjustment will be made for dividends or other rights as a shareholder for which a record date is prior to such date of delivery.

22. *Miscellaneous.*

(a) The Plan, the options granted hereunder and any other documents related to the Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

(b) If any provision of the Plan shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan shall continue in effect.

(c) Captions and headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction of interpretation of the Plan or any provision hereof.

(d) The adoption of the Plan shall not affect any other Company or Subsidiary compensation or incentive plans in effect. Nothing in the Plan will limit or be deemed to limit the authority of the Board or Committee (1) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary (with or without reference to the Common Stock), or (2) to grant or assume options (outside the scope of and in addition to those contemplated by the Plan) in connection with any proper corporate purpose; to the extent consistent with any other plan or authority. Benefits received by a Participant under an option granted pursuant to the Plan shall not be deemed a part of the Participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary, except where the Committee or the Board (or the Board of Directors of the Subsidiary that sponsors such plan or arrangement, as applicable) expressly otherwise provides or authorizes in writing.

Table of Contents

EXHIBIT C

**WESTERN DIGITAL CORPORATION**  
**AMENDED AND RESTATED**  
**2004 PERFORMANCE INCENTIVE PLAN**

**1. PURPOSE OF PLAN**

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

**2. ELIGIBILITY**

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

**3. PLAN ADMINISTRATION**

**3.1 The Administrator.** This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The **Administrator** means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by Section 157(c) of the Delaware General Corporation Law and any other applicable law, to one or more officers of the Corporation, its powers under this Plan (a) to designate the officers and employees of the Corporation and

C-1



**Table of Contents**

its Subsidiaries who will receive grants of awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of, such awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Corporation or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the Administrator shall constitute action by the acting Administrator.

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

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

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

**Table of Contents**

- (c) approve the forms of award agreements (which need not be identical either as to type of award or among participants);
- (d) construe and interpret this Plan and any agreements defining the rights and obligations of the Corporation, its Subsidiaries, and participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan or the awards granted under this Plan;
- (e) cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;
- (f) accelerate or extend the vesting or exercisability or extend the term of any or all such outstanding awards (in the case of options or stock appreciation rights, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services or other events of a personal nature) subject to any required consent under Section 8.6.5 and subject to the minimum vesting rules of Section 5.1.5;
- (g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6, and provided that in no case (except due to an adjustment contemplated by Section 7 or any repricing that may be approved by stockholders) shall such an adjustment constitute a repricing (by amendment, cancellation and regrant, exchange or other means) of the per share exercise or base price of any option or stock appreciation right;
- (h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action granting an award);
- (i) determine whether, and the extent to which, adjustments are required pursuant to Section 7 hereof and authorize the termination, conversion, substitution or succession of awards upon the occurrence of an event of the type described in Section 7;
- (j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration; and
- (k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined.

C-3

---

**Table of Contents**

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

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

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

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

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

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

- (a) 17,500,000 shares of Common Stock, plus
- (b) the number of shares of Common Stock available for additional award grant purposes under the Corporation's Employee Stock Option Plan (the **Employee Option Plan**) immediately prior to the expiration of that plan on November 10, 2004; plus
- (c) the number of shares of Common Stock available for additional award grant purposes under the Corporation's Stock Option Plan for Non-Employee Directors (the **Director Option Plan**), and the Corporation's

**Table of Contents**

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

- (d) the number of any shares subject to stock options granted under the Option Plans and outstanding on the Stockholder Approval Date which expire, or for any reason are cancelled or terminated, after the Stockholder Approval Date without being exercised; plus
- (e) the number of any shares of restricted stock granted under the Broad-Based Plan that are outstanding and unvested on the Stockholder Approval Date that are forfeited, terminated, cancelled or otherwise reacquired by the Corporation without having become vested;

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

Shares issued in respect of any Full-Value Award granted under this Plan shall be counted against the foregoing Share Limit as 1.35 shares for every one share actually issued in connection with such award. (For example, if a stock bonus of 100 shares of Common Stock is granted under this Plan, 135 shares shall be charged against the Share Limit in connection with that award.) For this purpose, a Full-Value Award means any award under this Plan that is not either: (1) a delivery of shares in respect of compensation earned but deferred, (2) except as expressly provided in Section 5.1.1 (which generally provides that discounted stock option grants are Full-Value Awards), a stock option grant, and (3) except as expressly provided in Section 5.1.2 (which generally provides that discounted stock appreciation right grants are Full-Value Awards), a stock appreciation right grant.

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

- (1) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 35,199,313 shares.
- (2) The maximum number of shares of Common Stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under this Plan is 1,000,000 shares.

**Table of Contents**

- (3) Additional limits with respect to Performance-Based Awards are set forth in Section 5.2.3.
- (4) In no event will greater than five percent (5%) of the total shares of Common Stock available for award grant purposes under this Plan be used for purposes of granting certain Special Full-Value Awards referred to in Sections 5.1.1, 5.1.2 and 5.1.5.

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

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

- (a) Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent awards under this Plan.
- (b) To the extent that an award is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan.
- (c) In the event that shares of Common Stock are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of this Plan. To the extent that shares of Common Stock are delivered pursuant to the exercise of a stock appreciation right or stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits under Section 4.2, as opposed to only counting the shares actually issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits under Section 4.2 with respect to such exercise.)

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

**Table of Contents**

Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan.

**5. AWARDS**

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

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

**5.1.2 *Additional Rules Applicable to ISOs.*** To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds \$100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Corporation or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the \$100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the

C-7

---

**Table of Contents**

\$100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Corporation or one of its subsidiaries (for this purpose, the term subsidiary is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Corporation and ending with the subsidiary in question). There shall be imposed in any award agreement relating to ISOs such other terms and conditions as from time to time are required in order that the option be an incentive stock option as that term is defined in Section 422 of the Code. No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted.

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

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

**5.1.5 Minimum Vesting Requirements.** Except for any accelerated vesting required or permitted pursuant to Section 7 and except as otherwise provided in the following provisions of this Section 5.1.5, and subject to such additional vesting requirements or conditions as the Administrator may establish with

**Table of Contents**

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

**5.2 Section 162(m) Performance-Based Awards.** Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.4 above may be, and options and SARs granted with an exercise or base price not less than the fair market value of a share of Common Stock at the date of grant ( **Qualifying Options** and **Qualifying SARs**, respectively) typically will be, granted as awards intended to satisfy the requirements for performance-based compensation within the meaning of Section 162(m) of the Code ( **Performance-Based Awards**”). The grant, vesting, exercisability or payment of Performance-Based Awards may depend (or, in the case of Qualifying Options or Qualifying SARs, may also depend) on the degree of achievement of one or more performance goals relative to a pre-established targeted level or level using one or more of the Business Criteria set forth below (on an absolute or relative



**Table of Contents**

basis) for the Corporation on a consolidated basis or for one or more of the Corporation's subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualifying Option or Qualifying SAR shall be subject only to the requirements of Section 5.2.1 and 5.2.3 in order for such award to satisfy the requirements for performance-based compensation under Section 162(m) of the Award. Any other Performance-Based Award shall be subject to all of the following provisions of this Section 5.2.

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

**5.2.2 Performance Goals.** The specific performance goals for Performance-Based Awards (other than Qualifying Options and Qualifying SARs) shall be, on an absolute or relative basis, established based on one or more of the following business criteria ( **Business Criteria** ) as selected by the Administrator in its sole discretion: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, or any combination thereof. These terms are used as applied under generally accepted accounting principles or in the financial reporting of the Corporation or of its Subsidiaries. To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance goal or goals ( **targets** ) must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code. Performance targets shall be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets. The applicable performance measurement period may not be less than three months nor more than 10 years.

**5.2.3 Form of Payment; Maximum Performance-Based Award.** Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Grants of Qualifying Options and Qualifying SARs to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.2(2). The maximum number of shares of Common Stock which may be delivered pursuant to Performance-Based Awards (other than Qualifying Options and Qualifying SARs, and other than cash awards covered by the

**Table of Contents**

following sentence) that are granted to any one participant in any one calendar year shall not exceed 800,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 7.1. In addition, the aggregate amount of compensation to be paid to any one participant in respect of all Performance-Based Awards payable only in cash and not related to shares of Common Stock and granted to that participant in any one calendar year shall not exceed \$5,000,000. Awards that are cancelled during the year shall be counted against these limits to the extent permitted by Section 162(m) of the Code.

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

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

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

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

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

**Table of Contents**

amounts are denominated in shares.

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

a reduction in compensation otherwise payable to the recipient of such award for services rendered by the recipient;

cash, check payable to the order of the Corporation, or electronic funds transfer;

notice and third party payment in such manner as may be authorized by the Administrator;

the delivery of previously owned shares of Common Stock;

by a reduction in the number of shares otherwise deliverable pursuant to the award; or

subject to such procedures as the Administrator may adopt, pursuant to a cashless exercise with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

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

**5.6 Definition of Fair Market Value.** For purposes of this Plan, fair market value shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the closing price of a share of Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange (the

**Table of Contents**

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

**5.7 Transfer Restrictions.**

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

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

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

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

**Table of Contents**

beneficiary, transfers by will or the laws of descent and distribution,

- (c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if approved or ratified by the Administrator,
- (d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or
- (e) the authorization by the Administrator of cashless exercise procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and the express authorization of the Administrator.

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

**6. EFFECT OF TERMINATION OF SERVICE ON AWARDS**

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

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

**6.3 *Effect of Change of Subsidiary Status.*** For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Corporation a termination of

**Table of Contents**

employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another entity within the Corporation or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status.

**7. ADJUSTMENTS; ACCELERATION**

**7.1 Adjustments.** Upon or in contemplation of: any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split ( stock split ); any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of all or substantially all the business or assets of the Corporation as an entirety; then the Administrator shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances:

- (a) proportionately adjust any or all of (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any or all outstanding awards, (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, or (5) (subject to Sections 7.8 and 8.8.3(a)) the performance standards applicable to any outstanding awards, or
- (b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding share-based awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based awards, based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award. With respect to any award of an ISO, the Administrator may make such an adjustment that causes the option to cease to qualify as an ISO without the consent of the affected participant.

In any of such events, the Administrator may take such action prior to such event

C-15

---

**Table of Contents**

to the extent that the Administrator deems the action necessary to permit the participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally. In the case of any stock split or reverse stock split, if no action is taken by the Administrator, the proportionate adjustments contemplated by clause (a) above shall nevertheless be made.

**7.2 Automatic Acceleration of Awards.** Upon a dissolution of the Corporation or other event described in Section 7.1 that the Corporation does not survive (or does not survive as a public company in respect of its Common Stock), then each then-outstanding option and SAR shall become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award; provided that such acceleration provision shall not apply, unless otherwise expressly provided by the Administrator, with respect to any award to the extent that the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the award, or the award would otherwise continue in accordance with its terms, in the circumstances.

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

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

**Table of Contents**

Corporation's then outstanding voting securities ( **Outstanding Company Voting Securities** ) (in each case, other than an acquisition in the context of a merger, consolidation, reorganization, asset sale or other extraordinary transaction covered by, and which does not constitute a Change in Control Event under, clause (c) below);

- (b) A change, during any period of two consecutive years, of a majority of the Board as constituted as of the beginning of such period, unless the election, or nomination for election by the Company's stockholders, of each director who was not a director at the beginning of such period was approved by vote of at least two-thirds of the Incumbent Directors then in office (for purposes hereof, **Incumbent Directors** shall consist of the directors holding office as of the Effective Date and any person becoming a director subsequent to such date whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the Incumbent Directors then in office);
- (c) Consummation of any merger, consolidation, reorganization or other extraordinary transaction (or series of related transactions) involving the Corporation, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each, a **Business Combination** ), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Corporation or all or substantially all of the Corporation's assets directly or through one or more subsidiaries (a **Parent** )), (2) no Person (excluding any entity resulting from such Business Combination or a Parent or any employee benefit plan (or related trust) of the Corporation or such entity resulting from such Business Combination or Parent, and excluding any underwriter in connection with a firm commitment public offering of the Corporation's capital stock) Beneficially Owns, directly or indirectly, more than thirty-three and one third percent of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Parent were Incumbent Directors at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

C-17

---



**Table of Contents**

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

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

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

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

**7.7 *Golden Parachute Limitation.*** Notwithstanding anything else contained in this Section 7 to the contrary, in no event shall an award be accelerated under this Plan

C-18

---

**Table of Contents**

to an extent or in a manner which would not be fully deductible by the Corporation or one of its Subsidiaries for federal income tax purposes because of Section 280G of the Code, nor shall any payment hereunder be accelerated to the extent any portion of such accelerated payment would not be deductible by the Corporation or one of its Subsidiaries because of Section 280G of the Code. If a participant would be entitled to benefits or payments hereunder and under any other plan or program that would constitute parachute payments as defined in Section 280G of the Code, then the participant may by written notice to the Corporation designate the order in which such parachute payments will be reduced or modified so that the Corporation or one of its Subsidiaries is not denied federal income tax deductions for any parachute payments because of Section 280G of the Code. Notwithstanding the foregoing, if a participant is a party to an employment or other agreement with the Corporation or one of its Subsidiaries, or is a participant in a severance program sponsored by the Corporation or one of its Subsidiaries, that contains express provisions regarding Section 280G and/or Section 4999 of the Code (or any similar successor provision), the Section 280G and/or Section 4999 provisions of such employment or other agreement or plan, as applicable, shall control as to any awards held by that participant (for example, and without limitation, a participant may be a party to an employment agreement with the Corporation or one of its Subsidiaries that provides for a gross-up as opposed to a cut-back in the event that the Section 280G thresholds are reached or exceeded in connection with a change in control and, in such event, the Section 280G and/or Section 4999 provisions of such employment agreement shall control as to any awards held by that participant).

**8. OTHER PROVISIONS**

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

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

**8.3 *No Employment/Service Contract.*** Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of

**Table of Contents**

the Corporation or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Corporation or one of its Subsidiaries to change a person's compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.

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

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

- (a) require the participant (or the participant's personal representative or beneficiary, as the case may be) to pay or provide for payment of at least the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such award event or payment; or
- (b) deduct from any amount otherwise payable in cash to the participant (or the participant's personal representative or beneficiary, as the case may be) the minimum amount of any taxes which the Corporation or one of its Subsidiaries may be required to withhold with respect to such cash payment.

In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Administrator may in its sole discretion (subject to Section 8.1) grant (either at the time of the award or thereafter) to the participant the right to elect, pursuant to such rules and subject to such conditions as the Administrator may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the

**Table of Contents**

appropriate number of shares, valued in a consistent manner at their fair market value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In no event shall the shares withheld exceed the minimum whole number of shares required for tax withholding under applicable law. The Corporation may, with the Administrator's approval, accept one or more promissory notes from any Eligible Person in connection with taxes required to be withheld upon the exercise, vesting or payment of any award under this Plan; provided that any such note shall be subject to terms and conditions established by the Administrator and the requirements of applicable law.

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

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

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

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

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

**Table of Contents**

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

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

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

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

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

**8.8.3 Plan Construction.**

- (a) **Rule 16b-3.** It is the intent of the Corporation that the awards and transactions permitted by awards be interpreted in a manner that, in the case of participants who are or may be subject to Section 16 of the Exchange Act, qualify, to the maximum extent compatible with the express terms of the award, for exemption from matching liability under Rule 16b-3 promulgated under the Exchange Act. Notwithstanding the foregoing, the Corporation shall have no liability to any participant for Section 16 consequences of awards or events under awards if an award or event does not so qualify.
- (b) **Section 162(m).** Awards under Section 5.1.4 to persons described in Section 5.2 that are either granted or become vested, exercisable or payable based on attainment of one or more performance goals related to the Business Criteria, as well as Qualifying Options and Qualifying SARs granted to persons described in Section 5.2, that are approved by a committee composed solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code) shall be deemed to be intended as performance-based compensation within the meaning of Section

C-22

---

**Table of Contents**

162(m) of the Code unless such committee provides otherwise at the time of grant of the award. It is the further intent of the Corporation that (to the extent the Corporation or one of its Subsidiaries or awards under this Plan may be or become subject to limitations on deductibility under Section 162(m) of the Code) any such awards and any other Performance-Based Awards under Section 5.2 that are granted to or held by a person subject to Section 162(m) will qualify as performance-based compensation or otherwise be exempt from deductibility limitations under Section 162(m).

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

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

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

**8.12 No Corporate Action Restriction.** The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the stockholders of the Corporation to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Corporation or any Subsidiary,

**Table of Contents**

(b) any merger, amalgamation, consolidation or change in the ownership of the Corporation or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Corporation or any Subsidiary, (d) any dissolution or liquidation of the Corporation or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Corporation or any Subsidiary, or (f) any other corporate act or proceeding by the Corporation or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Corporation or any employees, officers or agents of the Corporation or any Subsidiary, as a result of any such action.

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

###

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

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

C-24

---

**Table of Contents**

**20511 LAKE FOREST DRIVE  
LAKE FOREST, CALIFORNIA 92630-7741**

Whether or not you plan on attending the meeting, you are urged to vote these shares by completing and returning this proxy card or transmitting your voting instructions electronically via the Internet or by the phone. Your telephone or Internet vote authorizes the named proxies to vote the shares in the same manner as if you had marked, signed and returned a proxy card.

**VOTE BY PHONE 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY INTERNET www.proxyvote.com**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by Western Digital Corporation in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Western Digital Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

WSTDG1

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**WESTERN DIGITAL CORPORATION**

**The Board of Directors recommends a vote FOR each of the following nominees and proposals:**

**1. ELECTION OF DIRECTORS:**

- |                                  |                               |
|----------------------------------|-------------------------------|
| <b>01) Matthew E. Massengill</b> | <b>06) Michael D. Lambert</b> |
| <b>02) Peter D. Behrendt</b>     | <b>07) Roger H. Moore</b>     |
| <b>03) Kathleen A. Cote</b>      | <b>08) Thomas E. Pardun</b>   |
| <b>04) Henry T. DeNero</b>       | <b>09) Arif Shakeel</b>       |
| <b>05) William L. Kimsey</b>     |                               |

**For**

**Withhold**

**For All**



All

All

Except

o

o

o

**To withhold authority to vote for any nominee(s), mark For All Except and write the number of the nominee(s) for which a vote is to be withheld on the line below.**

| <b>Vote On Proposals</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--|------------|----------------|----------------|
| 2. To approve the Western Digital Corporation 2005 Employee Stock Purchase Plan;   | o          | o              | o              |
| 3. To approve an amendment to the Western Digital Corporation 2004 Performance Incentive Plan that would increase by 13,000,000 the number of shares of common stock available under the plan; and | o          | o              | o              |
| 4. To ratify the appointment of KPMG LLP as independent accountants for Western Digital Corporation for the fiscal year ending June 30, 2006.  | o          | o              | o              |

Please sign your name exactly as it appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in full partnership name by authorized person.

|  | <b>Yes</b> | <b>No</b> |
|--|------------|-----------|
| Please indicate if you plan to attend this meeting   | o          | o         |
| <b><u>HOUSEHOLDING ELECTION</u></b> Please indicate if you consent to receive certain future investor communications in a single package per household | o          | o         |

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date



Table of Contents

**WESTERN DIGITAL CORPORATION**

**20511 Lake Forest Drive**

**Lake Forest, California 92630-7741**

**THIS PROXY CARD IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned, hereby revoking any proxy previously given, appoints Matthew E. Massengill and Raymond M. Bukaty, and each of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the other side, all the shares of common stock of Western Digital Corporation held of record by the undersigned on September 30, 2005, at the Annual Meeting of Shareholders of Western Digital Corporation to be held on November 17, 2005, and at any postponements or adjournments thereof. The proposals of the Company referred to on the other side are described in the Proxy Statement, dated as of October 4, 2005, which is being delivered herewith in connection with the Annual Meeting.

**This proxy, when properly executed and returned, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted for each of the nine nominees named in Proposal 1 and for Proposals 2, 3 and 4. Whether or not direction is made, each of the Proxies is authorized to vote in his discretion on such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.**

**If you have a beneficial interest in shares held by the Western Digital Corporation 401(k) Plan, then this card also constitutes your voting instructions to the Trustee of such plan. If you do not sign and return this card, or attend the Annual Meeting and vote in person, such shares will not be voted by the Trustee.**

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE. IF YOU CHOOSE TO VOTE THESE SHARES BY TELEPHONE OR INTERNET, DO NOT RETURN THIS PROXY.**

(IMPORTANT PLEASE SIGN ON OTHER SIDE)

**Table of Contents**

**20511 LAKE FOREST DRIVE  
LAKE FOREST, CALIFORNIA 92630-7741**

Whether or not you plan on attending the meeting, you are urged to vote these shares by completing and returning this proxy card or transmitting your voting instructions electronically via the Internet or by the phone. Your telephone or Internet vote authorizes the named proxies to vote the shares in the same manner as if you had marked, signed and returned a proxy card.

**VOTE BY PHONE 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY INTERNET [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by Western Digital Corporation in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Western Digital Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR  
BLACK INK AS FOLLOWS:

WSTDG3

KEEP THIS PORTION FOR YOUR  
RECORDS

DETACH AND RETURN THIS  
PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**WESTERN DIGITAL CORPORATION**

**The Board of Directors recommends a vote FOR  
the following nominees and proposals:**

**1. ELECTION OF DIRECTORS:**

- |                                  |                               |
|----------------------------------|-------------------------------|
| <b>01) Matthew E. Massengill</b> | <b>06) Michael D. Lambert</b> |
| <b>02) Peter D. Behrendt</b>     | <b>07) Roger H. Moore</b>     |
| <b>03) Kathleen A. Cote</b>      | <b>08) Thomas E. Pardun</b>   |
| <b>04) Henry T. DeNero</b>       | <b>09) Arif Shakeel</b>       |
| <b>05) William L. Kimsey</b>     |                               |

**For  
All**

**Withhold  
All**

**For All  
Except**

o

o

o

**To withhold authority to vote for any nominee(s), mark For All Except and write the number of the nominee(s) for which a vote is to be withheld on the line below.**

**Vote On Proposals**

**For      Against      Abstain**

2. To approve the Western Digital Corporation 2005 Employee Stock Purchase Plan;

o

o

o

3. To approve an amendment to the Western Digital Corporation 2004 Performance Incentive Plan that would increase by 13,000,000 the number of shares of common stock available under the plan; and

o

o

o

4. To ratify the appointment of KPMG LLP as independent accountants for Western Digital Corporation for the fiscal year ending June 30, 2006.

o

o

o

Please sign your name exactly as it appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in full partnership name by authorized person.

**Yes**

**No**

Please indicate if you plan to attend this meeting

o

o

**HOUSEHOLDING ELECTION** - Please indicate if you consent to receive certain future investor communications in a single package per household

o

o

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date



**Table of Contents**

October 4, 2005

TO: Participants in the Western Digital Corporation 401(k) Plan

As a participant in the Western Digital Corporation 401(k) Plan, you have the right to vote the shares of Western Digital Corporation common stock allocated to this account.

To allow you to do this, please complete, sign and date the enclosed card, which will give instructions to the trustee of the plan, T. Rowe Price Trust Company, on how you wish these shares to be voted. Also enclosed is an Annual Report on Form 10-K and a Proxy Statement which explains the issues being presented for shareholder approval at the Annual Meeting of Shareholders to be held on November 17, 2005.

In addition to the election of directors and the ratification of the appointment of KPMG LLP as independent accountants, the Company is asking for your approval of the Western Digital Corporation 2005 Employee Stock Purchase Plan and an amendment to the Western Digital Corporation 2004 Performance Incentive Plan.

Your Board of Directors unanimously recommends that you vote FOR each of the director nominees named in Proposal 1 and FOR each of the other three proposals.

As a stock owner in Western Digital Corporation, ONLY YOU CAN VOTE THESE SHARES through the trustee. No one else has that right. If you do not provide the trustee with voting instructions these shares will not be voted unless you attend the Annual Meeting and vote in person. Therefore, it is important that these shares, no matter how large or small the amount, be represented at the Annual Meeting of Shareholders.

Please take the time to complete the enclosed card and return it in the enclosed, pre-addressed envelope as soon as possible.

Thank you for your cooperation.

Raymond M. Bukaty

Senior Vice President, Administration, General  
Counsel and Secretary

**WESTERN DIGITAL CORPORATION  
20511 Lake Forest Drive  
Lake Forest, California 92630-7741**

**THIS PROXY CARD IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned, hereby revoking any proxy previously given, appoints Matthew E. Massengill and Raymond M. Bukaty, and each of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the other side, all the shares of common stock of Western Digital Corporation held of record by the undersigned on September 30, 2005, at the Annual Meeting of Shareholders of Western Digital Corporation to be held on November 17, 2005, and at any postponements or adjournments thereof. The proposals of the Company referred to on the other side are described in the Proxy Statement, dated as of October 4, 2005, which is being delivered herewith in connection with the Annual Meeting.

**This proxy, when properly executed and returned, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted for each of the nine nominees named in Proposal 1 and for Proposals 2, 3 and 4. Whether or not direction is made, each of the Proxies is authorized to vote in his discretion on such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.**

**If you have a beneficial interest in shares held by the Western Digital Corporation 401(k) Plan, then this card also constitutes your voting instructions to the Trustee of such plan. If you do not sign and return this card, or attend the Annual Meeting and vote in person, such shares will not be voted by the Trustee.**

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE. IF YOU CHOOSE TO VOTE THESE SHARES BY TELEPHONE OR INTERNET, DO NOT RETURN THIS PROXY.**

(IMPORTANT PLEASE SIGN ON OTHER SIDE)