WESTERN DIGITAL CORP
Form DEF 14A
October 10, 2002

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

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))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to §240.14a-11(c) or 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):

[X] No fee 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:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders to be held at the Sutton Place Hotel located at 4500 MacArthur Boulevard, Newport Beach, California 92660 on Thursday, November 14, 2002, 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 the eight directors named in the Proxy Statement to serve until the next Annual Meeting of Shareholders and until their successors are duly elected and qualified.

To approve an amendment to the Company s 1993 Employee Stock Purchase Plan to increase by 4,000,000 the number of shares of common stock available for issuance under the plan.

To approve an amendment to the Company s Non-Employee Directors Stock-for-Fees Plan to extend the term of the plan to December 31, 2012.

To ratify the selection of KPMG LLP as independent accountants for the Company for the fiscal year ending June 27, 2003.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR EACH OF THESE 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 card. We urge you to promptly mark, sign, date and mail your proxy 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 and Chief Executive Officer

October 10, 2002

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20511 Lake Forest Drive

Lake Forest, California 92630-7741

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held on November 14, 2002

To the Shareholders of

WESTERN DIGITAL CORPORATION:

The Annual Meeting of Shareholders of Western Digital Corporation, a Delaware corporation, will be held at the Sutton Place Hotel located at 4500 MacArthur Boulevard, Newport Beach, California 92660, on Thursday, November 14, 2002, at 10:00 a.m., local time, for the following purposes:

1. To elect eight directors to serve until the next Annual Meeting of Shareholders of the Company and until their successors are duly elected and qualified;

2. To approve an amendment to the Company s 1993 Employee Stock Purchase Plan to increase by 4,000,000 the number of shares of common stock available for issuance to employees of the Company under the plan;

3. To approve an amendment to the Company s Non-Employee Directors Stock-for-Fees Plan to extend the term of the plan to December 31, 2012;

4. To ratify the selection of KPMG LLP as independent accountants for the Company for the fiscal year ending June 27, 2003; and

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

Only shareholders of record at the close of business on September 25, 2002, are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE URGED TO VOTE YOUR SHARES BY COMPLETING AND RETURNING THE ACCOMPANYING PROXY CARD 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 PROMPTLY WILL ASSIST THE COMPANY IN REDUCING THE EXPENSES OF ADDITIONAL PROXY SOLICITATION. SUBMITTING YOUR PROXY DOES NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IF YOU ATTEND THE MEETING.

By Order of the Board of Directors

RAYMOND M. BUKATY
Vice President, General Counsel and Secretary

Lake Forest, California
October 10, 2002

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20511 Lake Forest Drive

Lake Forest, California 92630-7741

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
November 14, 2002

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 2002 Annual Meeting of Shareholders to be held on November 14, 2002, at 10:00 a.m., local time, and at any and all adjournments and postponements of the Meeting. The Meeting will be held at the Sutton Place Hotel located at 4500 MacArthur Boulevard, Newport Beach, California 92660. This Proxy Statement and the accompanying form of proxy/voting instruction card is first being mailed to shareholders on or about October 10, 2002.

VOTING

September 25, 2002 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting. On the record date, 193,215,334 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 Meeting. The holders of a majority of the shares of common stock outstanding on the record date and entitled to be voted at the Meeting, present in person or by proxy, will constitute a quorum for the transaction of business at the Meeting and any adjournments and postponements thereof. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum.

Each proxy will be voted FOR the following four proposals: (1) election of the eight director nominees named herein, (2) approval of the amendment to the Company s 1993 Employee Stock Purchase Plan, (3) approval of the amendment to the Company s Non-Employee Directors Stock-for-Fees Plan, and (4) ratification of the selection of KPMG LLP as the Company s independent accountants for the fiscal year ending June 27, 2003, except that if a shareholder has submitted a proxy 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 at any time before it is voted at the Meeting by submitting a written notice of revocation to the Secretary of the Company, by submitting a duly executed written proxy bearing a later date or by providing new voting instructions electronically via the Internet or by telephone. A proxy will not be voted if the shareholder who executed it is present at the Meeting and elects to vote the shares represented by the proxy in person.

For the purposes of Proposal 1, the nominees receiving the greatest number of votes at the 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. For the purposes of Proposals 2, 3 and 4, approval requires the affirmative approval of a majority of the shares represented and voting at the Meeting. As a result, abstentions will have the same effect as a negative vote, whereas broker non-votes will have no effect on the outcome of the vote.

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SECURITY OWNERSHIP BY PRINCIPAL SHAREHOLDERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company s common stock and that of its Keen Personal Media, Inc. subsidiary, as of September 23, 2002, 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 of the Company, (3) each of the executive officers named in the Summary Compensation Table, 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 on a Schedule 13F filed with the Securities and Exchange Commission.

	Western Digital		Keen**	
Beneficial Owner	**Amount and Nature of Beneficial Ownership(1)**	**Percent of Class(2)**	**Amount and Nature of Beneficial Ownership(1)**	**Percent of Class(3)**
5% Beneficial Owners:				
Wellington Management Company, LLP, 75 State Street, Boston, MA 02109(4)	21,726,000	11.24%	0	
Directors:				
Peter D. Behrendt(5)(6)	121,407	*	20,000	*
I. M. Booth(5)(7)	174,944	*	0	
Kathleen A. Cote(5)	35,313	*	0	
Henry T. DeNero(5)	55,646	*	0	
Michael D. Lambert	1,893	*	0	
Roger H. Moore(5)	49,063	*	0	
Thomas E. Pardun(5)	403,125	*	0	
Executive Officers:				
Matthew E. Massengill(8)(9)	1,946,038	1.00%	0	
Arif Shakeel(9)(10)	1,174,585	*	0	
D. Scott Mercer(9)	354,014	*	0	
David C. Fetah(9)	306,370	*	0	
Charles W. Frank, Jr.(9)	335,703	*	0	
All Directors and Executive Officers as a group (15 persons)(5)(6)(7)(11)	5,522,636	2.86%	20,000	*
Former Executive Officer:				
Michael A. Cornelius(9)(12)	606,626	*	50,000	*

* Represents less than 1% of the outstanding stock.

** In 2002 the Company discontinued the operations of Keen.

(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 23, 2002, 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 computing the percentage of any other person.

(2) Applicable percentage of ownership is based on 193,215,334 shares of the Company s common stock outstanding as of September 23, 2002.

(3) Applicable percentage of ownership is based on 7,160,092 shares of Keen common stock outstanding as of September 23, 2002.

(4) This information is based on a Schedule 13F filed by Wellington Management Company, LLP with the Securities and Exchange Commission on August 14, 2002 for the quarter ended June 30, 2002. As of such reporting date, Wellington Management Company, LLP beneficially owned 21,726,000 shares of common stock of the Company, 19,317,200 shares with respect to which it possesses sole dispositive power and 2,408,800 shares of common stock with respect to which it possesses defined dispositive power, and 12,703,400 shares of common stock with respect to which it possesses sole voting power and 2,408,800 shares of common stock with respect to which it possesses shared voting power.

(5) Includes shares of common stock of the Company which may be acquired within 60 days after September 23, 2002, through the exercise of stock options as follows: Mr. Behrendt (103,625), Mr. Booth (105,625), Ms. Cote (35,313), Mr. DeNero (49,063), Mr. Moore (49,063), and Mr. Pardun (398,125). Does not include shares representing deferred stock units credited to accounts in the Company s Deferred Compensation Plan as of September 23 2002, as to which participants currently have no voting or investment power, as follows: Mr. Behrendt (7,355), Mr. Booth (3,596), Ms. Cote (19,143), Mr. DeNero (40,075), Mr. Moore (38,828), and Mr. Pardun (11,786).

(6) Includes 750 shares of common stock of the Company held by Mr. Behrendt s sons.

(7) Includes 49,108 shares of common stock of the Company held by a trust established for the benefit of Mr. Booth s grandchildren, as to which Mr. Booth disclaims beneficial ownership.

(8) Mr. Massengill is also a director of the Company.

(9) Includes shares of common stock of the Company which may be acquired within 60 days after September 23, 2002, through the exercise of stock options as follows: Mr. Massengill (1,435,646), Mr. Shakeel (752,552), Mr. Mercer (112,500), Mr. Fetah (206,370), Mr. Frank (222,677), and Mr. Cornelius (447,854).

(10) Includes 150,000 shares of common stock of the Company held in an Individual Retirement Account by Mr. Shakeel.

(11) Includes 3,938,988 shares of common stock of the Company which may be acquired within 60 days after September 23, 2002, through the exercise of stock options. Does not include 120,783 shares of common stock of the Company representing deferred stock units credited to accounts in the Company s Deferred Compensation Plan as of September 23, 2002, as to which the holders of such accounts currently have no voting or investment power.

(12) Mr. Cornelius retired from his position as Vice President, Law and Administration, effective March 28, 2002. Mr. Cornelius remains employed by the Company as Vice President, Intellectual Property. The agreement entered into between the Company and Mr. Cornelius in connection with his retirement from the Company is described below under the caption Employment Agreements, Termination of Employment and Change of Control Arrangements Separation Agreement .

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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 eight. At the Meeting, eight 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 Meeting up to the number of 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. Unless authority to vote for any director is withheld in a proxy, it is intended that each proxy will be voted FOR such nominees. In the event that, before the 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 other directions are given in the proxies. To the Company s knowledge, all the nominees will be available to serve. The Board of Directors recommends that shareholders vote FOR the election of each of the nominees listed below.

The following biographical information furnished with respect to each of the eight nominees has been furnished by the nominee:

Matthew E. Massengill, 41, has been a director of the Company since January 2000 and assumed the position of Chairman of the Board of Directors in November 2001. Mr. Massengill has also served as Chief Executive Officer since January 2000. From October 1999 until that time he was Chief Operating Officer, and from August 1999 to October 1999, he was Co-Chief Operating Officer. Prior to that time he served for more than five years in various executive capacities within the Company.

Thomas E. Pardun, 58, has served as 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 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 (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 also serves as a director of Exabyte Corporation and MegaPath Networks.

I. M. Booth, 70, has been a director of the Company since 1985. Mr. Booth retired in 1996 after having served as Chairman, President and Chief Executive Officer of Polaroid Corporation from June 1991 to March 1996. He is also a director of State Street Bank & Trust.

Peter D. Behrendt, 63, has been a director of the Company since 1994. Mr. Behrendt 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 from July 1990 to January 1997. He is also a director of Infocus Corporation and Exabyte Corporation.

Kathleen A. Cote, 53, has been a director of the Company since January 2001. Ms. Cote has been Chief Executive Officer of Worldport Communications, Inc., a European provider of Internet managed services, since May 2001. From September 1998 until May 2001, she served as President of Seagrass Partners, a provider of expertise in business planning and strategic development for early stage companies. From November 1996 until September 1998, she served as President and Chief Executive Officer of Computervision Corporation, an international supplier of product development and data management software.

Henry T. DeNero, 56, has been a director of the Company since June 2000. Mr. DeNero 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.

Michael D. Lambert, 55, 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 Computer Corporation s Enterprise Systems Group. During such 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 between 1993 and 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.

Roger H. Moore, 60, 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. 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 Tut Systems, Inc. and Verisign, Inc.

Committees and Meetings

The Board of Directors has standing Executive, Audit, Compensation, and Governance Committees. 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 membership of each committee is as follows, with the chairman of the committee listed first:

Executive Committee	Audit Committee	Compensation Committee	Governance Committee
Matthew E. Massengill	Henry T. DeNero	Peter D. Behrendt	Thomas E. Pardun
Henry T. DeNero	Kathleen A. Cote	I. M. Booth	Peter D. Behrendt
Thomas E. Pardun	Thomas E. Pardun	Michael D. Lambert	I. M. Booth
		Roger H. Moore	

Executive Committee. Between meetings of the Board, the Executive Committee may exercise all of the powers of the Board (except those powers expressly reserved by applicable law to the Board) 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 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. Specifically, the Audit Committee (1) reviews prior to publication the Company s annual financial statements with management and the Company s independent accountants; (2) reviews with the Company s independent accountants the scope, procedures and timing of the annual audits; (3) reviews the adequacy and effectiveness of the Company s internal accounting controls; (4) reviews the scope of other auditing services to be performed by the Company s independent accountants; (5) reviews the independence and effectiveness of the Company s independent accountants, and their significant relationships with the Company; (6) recommends the retention or appointment of the independent auditor of the Company, which is ultimately accountable to the Board through the Audit Committee; (7) reviews the adequacy of the Company s accounting and financial personnel resources; (8) reviews the Audit Committee Charter on an annual basis; (9) reviews or designates the Chairman of the Committee to review with management and the Company s independent accountants the results of any significant matters identified as a result of the accountants review procedures prior to filing any Form 10-Q or as soon thereafter as possible; (10) reviews material pending legal proceedings involving the Company and other material contingent liabilities; and (11) reviews any other matters relative to the audit of the Company s accounts and the preparation of its financial statements that the Committee deems appropriate.

Compensation Committee. The Compensation Committee is responsible for approving and reporting to the Board on all elements of compensation for executive officers. The Compensation Committee also reviews and approves various other Company policies and compensation matters and administers the Company s Employee Stock Option Plan, 1993 Employee Stock Purchase Plan, Deferred Compensation Plan, Broad-Based Stock Incentive Plan and Executive Bonus Plan.

Governance Committee. The Governance Committee advises the Board of Directors with respect to matters relating to corporate governance, the composition of the Board of Directors, and CEO performance. Specifically the key responsibilities of the Governance Committee are to (1) recommend to the Board the size and composition of the Board and the size, composition and functions of the Board committees; (2) identify, attract, and recommend director candidates who bring knowledge, experience, and expertise that would strengthen the Board; (3) make recommendations to the Board on such matters as the retirement age, tenure and removal of directors; (4) recommend directors for election at the annual meeting of shareholders; (5) manage the Board performance review process and review the results with the Board on an annual basis; (6) manage the CEO performance review process and present recommendations to the Board on an annual basis; (7) recommend to the Board improvements in its governance processes and changes; and (8) review and make recommendations to the Board regarding proposals of shareholders that relate to corporate governance. The Governance Committee will consider nominees recommended by shareholders for election at the Company s 2003 Annual Meeting of Shareholders, so long as such proposal is received in writing by the Secretary of the Company at the Company s principal executive offices no less than 60 days and no more than 120 days prior to the Company s 2003 Annual Meeting, which the Company currently anticipates will be held on November 20, 2003.

Meetings. During fiscal year 2002, there were six meetings of the Board, one meeting of the Executive Committee, 12 meetings of the Audit Committee, six meetings of the Compensation Committee and one meeting of the Governance Committee. 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.

Director Compensation

Director Fees. Non-employee directors receive an annual retainer of $35,000 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, $1,000 for any and all committee meetings attended if not held on the same day as a Board meeting, $500 for each 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 $2,500. Mr. Massengill, who is an employee of the Company, does not receive any compensation for his services as a director or committee member.

Non-Employee Directors Stock-for-Fees Plan. Under the Company s Non-Employee Directors Stock-for-Fees Plan (the Stock-for-Fees Plan), $20,000 of the $35,000 annual retainer fee payable to each non-employee director is paid in the form of shares of the Company s common stock rather than cash. Each non-employee director may elect to receive shares in lieu of any or all of (1) the remaining $15,000 of the annual retainer fee otherwise payable to him or her in cash for that calendar year, and/or (2) the meeting attendance

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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 annual retainer or meeting fees 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 Stock-for-Fees Plan, the Company pays a 15% premium in the form of cash to each non-employee director who elects to defer annual retainers or meeting fees to be received in cash and a 25% premium in the form of common stock 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. Shares issued under the Stock-for-Fees Plan in the last three fiscal years were: (1) 5,701 plus the 44,700 deferred stock units reported below under Deferred Compensation Plan in fiscal year 2002, (2) 35,209 plus the 55,644 deferred stock units reported below under Deferred Compensation Plan in fiscal year 2001, and (3) 16,676 plus 17,875 deferred stock units, including the 10,686 deferred stock units reported below under Deferred Compensation Plan in fiscal year 2000.

The maximum aggregate number of shares of common stock that may be issued under the Stock-for-Fees Plan is 400,000 shares, subject to adjustments for stock splits and similar events. If Proposal 3 is approved at the Meeting, the Stock-for-Fees Plan will terminate on December 31, 2012, unless it is terminated by earlier action of the Board. The Board has the power to suspend, discontinue or amend the Stock-for-Fees Plan at any time, subject to shareholder approval, if required under any law or regulation.

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 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 which 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 2002 is 7%, and for calendar years 2001 and 2000 was 7.4%.

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

Director	2002 Deferred Stock Units(1)	2002 Cash Deferred(2)	2001 Deferred Stock Units(1)	2001 Cash Deferred(2)	2000 Deferred Stock Units(3)	2000 Cash Deferred
Peter D. Behrendt	4,099	$23,000	0	0	0	0
I. M. Booth	0	0	0	0	3,596	$ 14,375
Kathleen A. Cote	7,676	$25,875	11,467	0	0	0
Henry T. DeNero	15,937	0	22,765	0	0	0
Roger H. Moore	12,890	0	21,412	0	3,494	$ 10,397
Thomas E. Pardun	4,098	$36,225	0	$180,000	3,596	$310,500
Total	44,700	$85,100	55,644	$180,000	10,686	$335,272

(1) Includes the 25% premium, in the form of common stock, received under the 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 common stock.

(2) Includes the 15% premium, in the form of cash, received under the 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. The premium did not apply to the Chairman s fee of $180,000 that Mr. Pardun elected to defer in 2001.

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(3) Includes a 15% premium, in the form of common stock, received under the Stock-for-Fees Plan effective prior to May 25, 2000, by each non-employee director who elected to defer his or her annual retainer or meeting fees to be received in common stock.

Stock Option Plan for Non-Employee Directors. The Company has a Stock Option Plan for Non-Employee Directors (the Director Stock Option Plan), under which options to purchase shares of the Company s common stock are granted to the Company s non-employee directors. Pursuant to the Director Stock Option Plan, non-employee directors are automatically granted an option to purchase 75,000 shares of common stock upon initial election or appointment to the Board at an exercise price per share equal to the fair market value of the common stock on the date of such 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 served as a director since his or her election or appointment and has been re-elected as a director at such annual meeting, such non-employee director will automatically receive another option to purchase 10,000 shares of 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 fiscal quarter 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, provided at least four years of service to the Company, and does not render services to a competitor of the Company, in which case all options shall immediately vest and be exercisable for a three year period after such director s retirement. The maximum aggregate number of shares of common stock that may be issued upon exercises of options granted under the Director Stock Option Plan is 2,600,000, subject to adjustments for stock splits and similar events.

EXECUTIVE COMPENSATION

The following report of the Company s compensation committee addresses the Company s policies for fiscal year 2002 as they affected the Company s Chief Executive Officer and its other executive officers, including the Named Executive Officers in this Proxy Statement. This report shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, 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 incorporates it by reference into such filing.

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, which is composed entirely of non-employee directors, is responsible for approving and reporting to the Board on all elements of compensation for elected executive officers. The Committee also reviews and approves various other Company compensation policies and matters and administers the Company s Employee Stock Option Plan, Broad-Based Stock Incentive Plan, 1993 Employee Stock Purchase Plan, Deferred Compensation Plan and Executive Bonus Plan.

Compensation Philosophy

The Company s executive compensation programs are 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 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 productive 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 only 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 the performance of the Company s common stock 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 awards, including stock options 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 mechanical 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 Resources staff, the Committee utilizes the services of independent human resources consultants who provide 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 these surveys are also included in the Dow Jones Technology, Hardware and Equipment Index (see Stock Performance Graph at page 18).

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 are generally set at the median total cash compensation level for comparable jobs in the marketplace. However, depending upon the Company s business groups

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performance 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 Committee also reviews the compensation levels of the executive officers for internal consistency.

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. In all cases, the Committee considers the total potential compensation payable to each of the executive officers when establishing or adjusting any element of his or her compensation package.

Executive Compensation Components

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

Base salary. Executive 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 executives 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, 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 ICP is approved early in the fiscal year by the Committee and the Board of Directors. For fiscal year 2002, the ICP was weighted towards operating results at the corporate and business unit level and on key operational measures that included primarily financial performance metrics, business unit specific goals and Company operational goals.

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 biannually establishes operating and/or financial performance goals under the ICP. The bonus pool payable under the ICP for each biannual 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. Because the Company exceeded all of the financial and other performance goals under the ICP in fiscal 2002, ICP cash awards equivalent to approximately 125% of the target awards were made to executive officers for each of the six months ended December 28, 2001 and June 28, 2002.

Stock Options and Restricted Stock Grants. The Committee views the grant of stock options and restricted stock 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 pursuant to the Company s Employee Stock Option Plan and are eligible to receive options, restricted stock and other stock-based compensation under the Company s Broad-Based Stock Incentive Plan. Stock options are granted with an exercise price equal to the fair market value per share of the Company s common stock on the date of grant. Vesting periods for the options and restricted stock are utilized to encourage retention of executive officers and reward long-term commitment to the Company. The Employee Stock Option Plan prohibits the repricing of options. The Committee believes that options, because they are granted with an exercise price per share equal to the market value of the common stock on the date of grant, and restricted stock, are an effective incentive for officers to create value for the Company s shareholders and are an excellent means of rewarding executives who are in a position to contribute to the Company s long-term growth and profitability.

While all executive officers are eligible to receive stock options or restricted stock, the award of any stock option or restricted stock grant, as well as the size of the grant each executive receives, is determined by the Committee. The Committee reviews with the Vice President of Human Resources and the Chief Executive Officer (except in the case of their own stock option or restricted stock grants) and approves individual stock option and restricted stock grants for each of the Company s executive officers, including the current Named

Executive Officers. The amount of each executive s stock option and restricted stock grant 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. The stock options and restricted stock granted to the Named Executive Officers in fiscal year 2002 are set forth in the Summary Compensation and Option Grants tables beginning at page 13.

Long-Term Retention Awards. In fiscal year 1996, the Company adopted an executive retention program through which the Company granted cash awards to key employees whose retention is deemed critical to the Company s future success. The purpose of the program was to retain participants by providing a significant incremental opportunity for capital accumulation and to focus participants on increasing the value of the Company s common stock. Commencing in July 1998, awards under the executive retention program consisted of a cash award and a stock option grant. The awards (cash and stock options) vest in accordance with schedules designed to maximize the retention value of the awards to the executives receiving the awards. Certain executive officers continued to receive cash payments in 2002 under awards granted prior to 2001. The Company did not make any new long term cash incentive awards in 2002.

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 the availability of expanded medical benefits, life insurance allowance, financial planning benefits and eligibility for participation in the non-qualified deferred compensation plan. The Committee believes that the compensation paid or payable pursuant to the executive benefits and the benefit plans available to regular employees generally are competitive with the benefit packages offered by comparable employers. From time to time, the Company s Human Resources Department obtains data to ensure that such benefit plans and programs remain competitive and reports its findings to the Committee.

Chief Executive Officer Compensation

Mr. Massengill was elected 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 align his interests with the interests of the shareholders. The majority of his compensation, including stock options, annual incentive bonuses and long-term retention awards, is at-risk. He does not have an employment contract. The process of establishing the compensation for the Chief Executive Officer s compensation and the criteria examined by the Committee parallel the process and criteria used in establishing compensation levels for the other executive officers. The Company s overall performance and Mr. Massengill s individual performance are critical factors in the Committee s determination.

Commencing in January 2002, Mr. Massengill s annual base salary was set at $700,000. For the first half of fiscal 2002, Mr. Massengill s annual base salary had been $650,000. The incentive compensation plan awards paid to Mr. Massengill for fiscal year 2002 totaled $843,750. During fiscal 2002, he received stock option grants under the Company s Employee Stock Option Plan totaling 650,000 shares. These options vest over three years. Mr. Massengill also received an award of 62,500 shares of restricted stock of SageTree under the SageTree 2000 Stock Incentive Plan, which vest over three years. In addition, the Board recognized Mr. Massengill for exceptional performance during the fiscal year with a special management incentive bonus of $350,000. The Committee s decisions regarding Mr. Massengill s stock option and restricted stock grants and special management incentive bonus were based on its subjective assessment of his performance and of the importance of his leadership to the Company s successful return to profitability, as well as its expectations for his future contributions in leading the Company.

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 four other most highly compensated executive officers. Certain performance-based compensation, however, is exempt from the deduction limit. It is the Committee s intention that, so long as it is consistent with its overall compensation objectives and philosophy, executive compensation will be deductible for federal income tax purposes. The Employee Stock Option Plan has been structured so that any taxable compensation derived pursuant to the exercise of options granted under such plan should not be subject to these deductibility limitations. Bonuses under the ICP and cash awards and restricted stock awards under the executive retention program do not satisfy all the requirements of Section 162(m), but the Committee has determined that these plans are in the best interests of the Company and its shareholders since the plans permit the Company to recognize an executive officer s contribution as appropriate.

COMPENSATION COMMITTEE

Peter D. Behrendt, Chairman
I.M. Booth
Michael D. Lambert
Roger H. Moore

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Summary Compensation Table

The following table sets forth the compensation paid to those persons who served as the Company s Chief Executive Officer in fiscal 2002, the four other most highly paid executive officers who were serving as executive officers at the end of fiscal 2002, and one other most highly paid executive officer in fiscal 2002 who was no longer serving as an executive officer at the end of fiscal 2002 (collectively, the Named Executive Officers).

		Annual Compensation**		Long-Term Compensation			
				Awards		Payouts	
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Restricted Stock Awards($)(1)**	**Securities Underlying Options/SARs* (#)**	**LTIP Payouts ($)**	**All Other Compen-sation ($)**
Executive Officers:							
Matthew E. Massengill	2002	671,154	1,193,750	1,606(2)	650,000(3)	750,000	2,000(15)
Chairman and Chief	2001	640,385	350,000	1,543,750	710,000(4)(5)	875,000	3,375
Executive Officer	2000	449,039	131,500	0	781,038(5)(6)	225,800	62,181
Arif Shakeel	2002	506,731	884,340	643(2)	400,000(3)	200,000	0
President and	2001	433,481	206,500	812,500	400,000(5)(7)	325,000	0
Chief Operating Officer	2000	317,308	61,000	0	395,351(5)(8)	0	170,214
D. Scott Mercer(9)	2002	227,163	274,110	465,000(10)	225,000(3)	0	0
Senior Vice President and Chief Financial Officer							
David C. Fetah	2002	251,538	158,310	0	100,000(3)	100,000	92,578(15)
Vice President,	2001	247,308	65,000	325,000	125,000(5)(11)	75,000	73,595
Human Resources	2000	62,019	0	0	128,245(3)	0	42,730
Charles W. Frank	2002	275,000	130,007	0	100,000(3)	100,000	2,000(15)
Vice President, Chief	2001	253,961	74,500	325,000	240,000(5)(12)	25,000	2,513
Technical Officer	2000	160,167	24,166	0	10,354(3)	0	20,960
Former Executive Officer:							
Michael A. Cornelius	2002	275,000	223,720	0	100,000(3)	200,000	2,000(15)
Former Vice President,	2001	273,077	96,500	325,000	150,000(5)(13)	242,100	2,480
Law and Administration	2000	248,461	41,000	0	158,774(5)(14)	93,100	2,000

* The Company does not grant Stock Appreciation Rights.

** The amount of prerequisites 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.

(1) Named Executive Officers hold restricted stock in the Company. One Named Executive Officer owns restricted stock in the Company s subsidiary, Keen Personal Media. Certain Named Executive Officers previously held restricted stock in SageTree, which prior to January 4, 2002, was a subsidiary of the Company.

Based on the $3.25 closing price of the Company s common stock on June 28, 2002, the number and value of the restricted stock holdings of the Company s common stock of the Named Executive Officers on that date were as follows: Mr. Massengill: 475,000 shares, $1,543,750; Mr. Shakeel: 250,000 shares, $812,500; Mr. Mercer: 150,000 shares, $487,500; Mr. Fetah: 100,000 shares, $325,000; Mr. Frank: 100,000 shares, $325,000; and Mr. Cornelius: 100,000 shares, $325,000.

Based on the $.00 fair market value of Keen s common stock on June 28, 2002, as determined by the Company in the absence of a public trading market for such common stock, the number and value of the restricted stock holdings of Keen s common stock of the Named Executive Officers on that date was: Mr. Cornelius: 33,333 shares, $0.

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Based on the $.00 fair market value of SageTree s common stock on June 28, 2002, as determined by the Company in the absence of a public trading market for such common stock, the number and value of the restricted stock holdings of SageTree s common stock of the Named Executive Officers on that date were as follows: Mr. Massengill: 46,875 shares; $0; and Mr. Shakeel: 18,750 shares, $0.

In 2002 the Company discontinued the operations of Keen and sold its interest in SageTree to NCR Corporation.

(2) These restricted stock awards of 62,500 shares of SageTree s common stock to Mr. Massengill and 25,000 shares to Mr. Shakeel, were granted under the SageTree 2000 Stock Incentive Plan and vested 25% immediately on January 2, 2002, the date of grant, and 25% annually thereafter. On the date of grant, SageTree s Board of Directors determined the fair market value of the common stock was $0.0257 per share. Dividends are payable on 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 SageTree s common stock.

(3) Options to purchase shares of common stock of the Company.

(4) Includes options held by Mr. Massengill to purchase 500,000 shares of common stock of the Company, 100,000 shares of common stock of Cameo and 110,000 shares of common stock of Keen.

(5) In fiscal 2002, the Company sold all the assets of Connex, sold its equity interest in SageTree to NCR Corporation and discontinued the operations of Cameo and Keen. As a result, in September 2002, with respect to options and shares of stock held in Connex, Cameo, SageTree and Keen by the directors of the Company and Named Executive Officers; (i) Cameo cancelled the stock options held in Cameo, (ii) Keen cancelled the stock options held in Keen, (iii) NCR cancelled the stock options held in SageTree, (iv) NCR purchased the outstanding shares of SageTree common stock, paying each such stockholder $0.00001 per share, but no less than $1.00 in the aggregate, and (v) the Company purchased the outstanding shares of Connex for $0.1168 per share. The aggregate consideration received by the Named Executive Officers in such transactions was $20,816.

(6) Includes options held by Mr. Massengill to purchase 506,038 shares of common stock of the Company, 125,000 shares of common stock of SageTree and 150,000 shares of common stock of Connex.

(7) Includes options held by Mr. Shakeel to purchase 300,000 shares of common stock of the Company, 50,000 shares of common stock of Cameo and 50,000 shares of common stock of Keen.

(8) Includes options held by Mr. Shakeel to purchase 315,351 shares of common stock of the Company, 50,000 shares of common stock of SageTree and 30,000 shares of common stock of Connex.

(9) Information on Mr. Mercer is provided only for fiscal 2002, the year during which Mr. Mercer became an executive officer of the Company.

(10) The restricted award of 150,000 shares of the Company s common stock was granted to Mr. Mercer under the Company s Broad-Based Stock Incentive Plan. This grant vests 40% on January 31, 2003 and 60% on January 31, 2004. The closing price of the Company s common stock on the date of the grant was $3.10 per share. The Broad-Based Stock Incentive Plan is administered by the Compensation Committee, which has broad discretion and authority to construe and interpret the plan. Dividends are payable on 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.

(11) Includes options held by Mr. Fetah to purchase 100,000 shares of common stock of the Company and 25,000 shares of common stock of Keen.

(12) Includes options held by Mr. Frank to purchase 190,000 shares of common stock of the Company and 50,000 shares of common stock of Cameo.

(13) Includes options held by Mr. Cornelius to purchase 100,000 shares of common stock of the Company and 50,000 shares of common stock of Keen.

(14) Includes options held by Mr. Cornelius to purchase 113,774 shares of common stock of the Company and 45,000 shares of common stock of Connex.

(15) The amounts reported in this column for fiscal year 2002 include (i) the Company s matching contributions to the Retirement Savings and Profit Sharing Plan on behalf of Mr. Massengill ($2,000),

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Mr. Fetah ($4,000), Mr. Frank ($2,000) and Mr. Cornelius ($2,000) and (ii) $88,877 paid by the Company in connection with Mr. Fetah s relocation.

Option/ SAR Grants in Last Fiscal Year

The following table sets forth information regarding stock options to purchase stock of the Company granted to the Named Executive Officers during fiscal year 2002 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.

	Individual Grants*				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	**Number of Securities Underlying Options/SARs Granted(1)**	**% of Total Options/SARs Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/Sh)**	**Expiration Date**	**5%($)**	**10%($)**
Executive Officers:						
Matthew E. Massengill	500,000	6.09%	2.10	9/26/2011	660,339	1,673,430
	150,000	1.83	6.95	1/17/2012	655,623	1,661,477
Arif Shakeel	300,000	3.66	2.10	9/26/2011	396,204	1,004,058
	100,000	1.22	6.95	1/17/2012	437,082	1,107,651
D. Scott Mercer	225,000	2.74	3.10	10/19/2011	438,654	1,111,635
David C. Fetah	100,000	1.22	2.10	9/26/2011	132,068	334,686
Charles W. Frank	100,000	1.22	2.10	9/26/2011	132,068	334,686
Former Executive Officer:						
Michael A. Cornelius	100,000	1.22	2.10	9/26/2011	132,068	334,686

* The Company does not grant Stock Appreciation Rights.

(1) All options to purchase shares of common stock of the Company were granted under the Company s Employee Stock Option Plan and were granted at fair market value on date of grant. Options become exercisable as to 25% of total number of shares granted after six months from date of grant, 25% after twelve months from date of grant, 25% after twenty-four months from date of grant and 25% after thirty-six months from date of grant. All options have a term of 10 years, subject to earlier termination in connection with termination of employment. The Employee Stock Option Plan is administered by the Compensation Committee, which has broad discretion and authority to construe and interpret the plan.

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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 2002, and the number of shares covered by exercisable and unexercisable options held by the Named Executive Officers on June 28, 2002, and the aggregate gains that would have been realized had these options been exercised on June 28, 2002, even though these options were not exercised, and the unexercisable options could not have been exercised, on June 28, 2002.

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options/SARs* At Fiscal Year End(#)		Value of Unexercised In-the-Money Options/SARs* At Fiscal Year End($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Executive Officers:						
Matthew E. Massengill	5,250	8,111(2)	1,066,901	1,030,729	187,500	431,250(3)
	135,938	20,630(4)	0	0		
	0	0	70,313	54,687	0	0(5)
	0	0	110,000	0	0	0(6)
	0	0	31,000	69,000	0	0(7)
Arif Shakeel	0	0	517,877	622,474	112,500	258,750(3)
	0	0	28,125	21,875	0	0(5)
	0	0	50,000	0	0	0(6)
	0	0	23,750	26,250	0	0(7)
D. Scott Mercer	0	0	56,250	168,750	8,438	25,313(3)
David C. Fetah	0	0	148,558	179,687	28,750	86,250(3)
	0	0	25,000	0	0	0(6)
Charles W. Frank	0	0	154,540	175,511	32,250	86,250(3)
	0	0	23,750	26,250	0	0(7)
Former Executive Officer:						
Michael A. Cornelius	0	0	394,104	147,750	55,000	86,250(3)
	42,188	6,403(4)	0	0		
	50,000	0(8)	0	0		

* The Company does not grant 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 the options and the market price of the Company s common stock on the date of exercise.

(3) 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 June 28, 2002, the last trading day of fiscal 2002. The closing price of the common stock on that day on the New York Stock Exchange was $3.25. Options are in-the-money if the market value of the shares covered thereby is greater than the option exercise price.

(4) These amounts represent the difference between the exercise price of the options and the fair market value of Connex s common stock on the date of exercise, as determined by the Company in the absence of a public trading market for such common stock.

(5) These amounts represent the difference between the exercise price of in-the-money options and the fair market value of SageTree s common stock on June 28, 2002, as determined by the Company in the absence of a public trading market for such common stock, which was $0.00.

(6) These amounts represent the difference between the exercise price of in-the-money options and the fair market value of Keen s common stock on June 28, 2002, as determined by the Company in the absence of a public trading market for such common stock, which was $0.00.

(7) These amounts represent the difference between the exercise price of in-the-money options and the fair market value of Cameo s common stock on June 28, 2002, as determined by the Company in the absence of a public trading market for such common stock, which was $0.00.

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(8) These amounts represent the difference between the exercise price of the options and the fair market value of Keen s common stock on the date of exercise, as determined by the Company in the absence of a public trading market for such common stock.

The options held by the Named Executive Officers in SageTree, Keen and Cameo were cancelled in September 2002. For a discussion of these transactions, see note (5) to the Summary Compensation Table.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of Messrs. Behrendt, Booth, Lambert and Moore. Until November 29, 2001, Mr. Pardun served on the Compensation Committee. No member of the Compensation Committee during fiscal 2002 was a current or former officer or employee of the Company. There are no Compensation Committee interlocks between the Company and other entities involving the Company s executive officers and Board members who serve as executive officers or board members of such other entities.

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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 Technology Hardware and Equipment Index for the five years ended June 28, 2002. The graph assumes that $100 was invested on June 28, 1997, 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 6/28/97)

Total Return Analysis

	6/28/97	6/27/98	7/3/99	6/30/00	6/29/01	6/28/02
Western Digital Corporation	$100.00	$ 37.38	$ 21.83	$ 16.62	$ 13.13	$ 10.80
DJ Technology Hardware and Equipment Index(1)	$100.00	$135.18	$233.92	$319.65	$191.94	$114.64
S&P 500 Index	$100.00	$129.96	$161.04	$170.42	$143.88	$117.97

(1) In prior years, the Company compared cumulative shareholder return against the Hambrecht & Quist Computer Hardware Index, as a comparative industry index. In connection with the acquisition by J.P. Morgan Chase & Co. of Hambrecht & Quist, this index was discontinued effective as of April 5, 2002. Therefore, this year the Company selected the Dow Jones Technology Hardware and Equipment Index as its comparative industry index. For a comparison of the cumulative total shareholder return of the Company s common stock against the Hambrecht & Quist Computer Hardware Index for 1997 through 2001, please see the stock performance graph included in our proxy statement for our 2001 Annual Meeting of Shareholders, filed with the Securities and Exchange Commission on October 15, 2001.

The stock performance graph shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, 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 incorporates it by reference into such filing.

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 year 2002. 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 year 2002 and the responses to annual directors and officers questionnaires, all of these reports were timely filed, except for one Form 5 for Mr. DeNero which inadvertently omitted reporting the acquisition of 97 deferred stock units. An amended Form 5 was subsequently filed with the Securities and Exchange Commission reporting this transaction.

EMPLOYMENT AGREEMENTS, TERMINATION OF EMPLOYMENT AND

CHANGE OF CONTROL ARRANGEMENTS

Employment Arrangements

The Company has an agreement with Mr. Mercer, dated October 19, 2001, relating to his employment with the Company. Mr. Mercer joined the Company as Senior Vice President and Interim Chief Financial Officer effective October 22, 2001. The agreement sets forth Mr. Mercer s compensation, including commuting arrangements, and provides that upon commencement of his employment, the Company would recommend that Mr. Mercer receive an option to purchase 225,000 shares of the Company s common stock, vesting over three years, and 150,000 shares of restricted stock, vesting 40% on January 31, 2003 and 60% on January 31, 2004. Vesting will cease upon termination of Mr. Mercer s service as Senior Vice President and Chief Financial Officer of the Company.

Separation Agreements

In connection with Mr. Cornelius s retirement, the Company entered into a letter agreement with Mr. Cornelius on March 31, 2002. Under this agreement, Mr. Cornelius resigned from all of his positions with the Company and its subsidiaries effective as of Thursday, March 28, 2002. Mr. Cornelius continues to provide transition services to the Company through March 31, 2003. The agreement contemplates that Mr. Cornelius will initially work full-time for 40 hours per week, gradually reducing to 10 hours per week by January 31, 2003. During the transition period, Mr. Cornelius will continue to receive his $275,000 annual salary for the period in which he works at least 40 hours per week, and this will be proportionately decreased as his hours reduce. During the transition period, and subject to Mr. Cornelius s compliance with the terms of the agreement, all of the stock options held by Mr. Cornelius in the Company and its subsidiaries will continue to vest through the transition period, and at the end of the transition period will be fully vested. In accordance with their terms, Mr. Cornelius s stock options will be exercisable for a period of up to three years thereafter. Upon the full performance by Mr. Cornelius of his services during the transition period, or if the Company terminates the transition period prior to March 31, 2003, all of Mr. Cornelius restricted stock awarded in November 2000 shall vest. During the transition period Mr. Cornelius is eligible to participate in the Company s Change of Control Plan at his current level (prorated for periods he is working part-time) and the Company s Incentive Compensation Plan with a potential payout at 65% of base pay (prorated). Mr. Cornelius eligibility and level of participation for benefits during the transition period will depend on his employment status and pay grade. Upon completion of the transition period he will receive a one-time lump sum payment equal to 18 months of his then current medical insurance premiums (grossed up to cover the net cost). The agreement also provides (1) for the release of the Company and its subsidiaries by Mr. Cornelius of certain claims related to his relationship with the Company and its subsidiaries, his assignment to the position of VP, Intellectual Property during the transition period, the purchase by Mr. Cornelius of the Company s securities, and other enumerated claims; (2) for the Company to indemnify Mr. Cornelius, to the extent indemnification is available to other executive officers, in connection with any claim arising from any act of

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Mr. Cornelius during the course of his employment with the Company, and (3) that Mr. Cornelius will not compete with or solicit the employees of the Company or persons with whom the Company has a business relationship, for a period of one year after the termination of the transition period. The agreement with Mr. Cornelius is filed as Exhibit 10.55 to the Company s Annual Report on Form 10-K, filed September 25, 2002.

Change in 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 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 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 executive officers of the Company subject to Section 16 of the Exchange Act, the severance benefits generally consist of the following:

(1) a lump sum payment equal to two times the executive 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 non-vested stock options granted to the executive officer by the Company;

(3) potential extension of the period in which the executive 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 executive 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 executive 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 executive officer would have been entitled to receive during the 24 months after termination of his or her employment if the executive officer, prior to the change in control, was receiving any cash-in-lieu payments designed to enable the executive officer to obtain insurance coverage of his or her choosing; and

(6) acceleration of all awards granted to the executive 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 executive officer from any successor employer. Generally, the benefits will be increased to the extent the Named Executive Officer has to pay taxes associated with excess parachute payments under the Internal Revenue Code, such that the net amount received by the executive officer is equal to the total payments he or she would have received had the tax not been incurred.

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Executive Bonus Plan

Effective May 16, 1994, the Company s Board of Directors adopted the Western Digital Corporation Executive Bonus Plan. Certain members of management and other highly compensated employees of the Company and its subsidiaries, including each of the currently employed Named Executive Officers, are eligible to participate in the Executive Bonus Plan. The Executive Bonus Plan provides for a benefit to be paid by a separate trust in connection with a change in control of the Company or the Company s insolvency. The value of each executive s benefit equals the assets in the trust allocable to the executive. As of June 28, 2002, for all of the Named Executive Officers, the aggregate benefit was equal to $1,529,565. The Executive Bonus Plan may be terminated or modified by the Company at any time until one year before an event triggering a payment obligation under the plan. No termination or amendment can decrease a participant s potential benefits under the plan as of the date of termination or amendment. The plan was amended and restated effective January 2000. The amended and restated Executive Bonus Plan is filed as Exhibit 10.11 to the Company s Annual Report on Form 10-K, filed September 25, 2002.

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PROPOSAL 2

APPROVAL OF THE AMENDMENT TO

THE 1993 EMPLOYEE STOCK PURCHASE PLAN

General

The Company seeks shareholder approval of an amendment to its 1993 Employee Stock Purchase Plan (the ESPP) to authorize issuance of an additional 4,000,000 shares of the Company s common stock. The ESPP was adopted with shareholder approval in 1993. Initially 3,500,000 shares were authorized to be issued under the plan. The plan was amended by the shareholders in 1996, 1997 and 1999 to authorize issuance of an additional 1,500,000, 2,000,000 and 4,000,000 shares, respectively, of the Company s common stock. The ESPP, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Internal Revenue Code of 1986, as amended (the Code).

As of September 20, 2002, employees had purchased 10,247,429 shares of the Company s common stock under the ESPP. Approximately 1,353 employees are currently enrolle