

BANCOLOMBIA SA  
Form 6-K  
June 15, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of June, 2015

Comission File Number 001-32535

**Bancolombia S.A.**

(Translation of registrant's name into English)

Cra. 48 # 26-85  
Medellín, Colombia  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):\_\_\_

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(2):\_\_\_

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):  
82-\_\_\_\_\_.

**Exhibit 99.1**

**BANCOLOMBIA ANNOUNCES INFORMATION REGARDING THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Medellín, Colombia. June 15, 2015

Bancolombia releases a comparative report of quarterly and year-end financial information corresponding to fiscal year 2014, furnished under International Financial Reporting Standards (IFRS) and compared against Colombian general accounting principles (COLGAAP) effective before the adoption of IFRS.

**DISCLAIMER**

This report corresponds to the interim unaudited consolidated financial statements of Bancolombia S.A. and its subsidiaries under control (“Bancolombia” or the “Bank”). These financial statements have been prepared in accordance with International Financial Reporting Standards – IFRS, and are presented in nominal figures. Bancolombia maintains accounting records in Colombian pesos, referred to herein as “Ps.” or “COP”.

**CAUTIONARY NOTE REGARDING CHANGES IN APPLICATION OF IFRS BY THE BANK:** Until 2014, Bancolombia prepared its financial statements under the rules issued by the Colombian Superintendence of Finance (Colombian GAAP). Beginning on January 1, 2015, the financial statements of Bancolombia are being prepared under IFRS. Bancolombia’s first IFRS financial statements will cover the year ending on December 31, 2015 and will also include the comparative financial statements for the year ending on December 31, 2014.

The interim unaudited consolidated financial information for interim periods within 2015, and the comparative interim 2014 period may be further amended until Bancolombia establishes its definitive IFRS accounting policies in accordance with the IFRS 1, implements applicable IFRS rules as of December 31, 2015, and prepares the first audited annual consolidated financial statements.

Any future dividends to be declared in the general shareholder's meeting of Bancolombia S.A. will be determined based on non-consolidated financial information prepared under IFRS as modified by the Colombian Superintendence of Finance, which can differ in certain material respects to that prepared under IFRS as promulgated by the International Accounting Standards Board.

**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS:** This release contains statements that may be considered forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. All forward-looking statements, whether made in this release or in future filings or press releases or orally, address matters that involve risks and uncertainties; consequently, there are or will be factors, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptances of new products or services by our targeted customers, changes in business strategy and various others factors, that could cause actual results to differ materially from those indicated in such statements. We do not intend, and do not assume any obligation, to update these forward-looking statements. Certain monetary amounts, percentages and other figures included in this report have been subject to rounding adjustments.

**CONSOLIDATED BALANCE SHEET****December 31, 2014****(COP million)**

	COLGAAP	IFRS *	Change (COP)	Change (%)	
<b>ASSETS</b>					
Cash and balances at central bank	11,192,825.00	11,194,859	2,034	0.02	%
Investments	13,677,801	13,020,412	(657,389 )	-4.81	%
Derivative financial instruments	1,472,879	1,448,845	(24,034 )	-1.63	%
Loans and advances to customers	108,687,061	115,133,130	6,446,069	5.93	%
Allowance for loan and financial leases losses	(4,862,404 )	(4,777,170 )	85,234	-1.75	%
Goodwill	4,033,882	4,583,927	550,045	13.64	%
Deferred tax	200,853	440,735	239,882	119.43	%
Operating leases, net	3,511,304	1,169,964	(2,341,340)	-66.68	%
Other assets	10,810,660	7,600,655	(3,210,005)	-29.69	%
<b>TOTAL ASSETS</b>	<b>148,724,861</b>	<b>149,815,357</b>	<b>1,090,496</b>	<b>0.73</b>	<b>%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Deposits	95,337,222	95,883,080	545,858	0.57	%
Derivative financial instruments	1,230,434	1,161,634	(68,800 )	-5.59	%
Borrowings from other financial institutions	13,846,543	13,918,234	71,691	0.52	%
Debt securities	13,682,855	13,825,185	142,330	1.04	%
Preferred shares	-	579,946	579,946	100.00	%
Employee benefits, pension plan	108,717	126,379	17,662	16.25	%
Deferred tax	237,896	645,101	407,205	171.17	%
Other liabilities	6,969,453	5,964,422	(1,005,031)	-14.42	%
<b>TOTAL LIABILITIES</b>	<b>131,413,120</b>	<b>132,103,981</b>	<b>690,861</b>	<b>0.53</b>	<b>%</b>
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE THE OWNERS OF THE PARENT COMPANY</b>	<b>16,817,354</b>	<b>17,210,418</b>	<b>393,064</b>	<b>2.34</b>	<b>%</b>
<b>NON-CONTROLLING INTEREST</b>	<b>494,387</b>	<b>500,958</b>	<b>6,571</b>	<b>1.33</b>	<b>%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>148,724,861</b>	<b>149,815,357</b>	<b>1,090,496</b>	<b>0.73</b>	<b>%</b>

\* **Figures under IFRS are not audited and are subject to revision**

**BALANCE SHEET VARIATIONS BETWEEN COLOMBIAN GAAP AND IFRS****December 31, 2014****(COP million)**

CONSOLIDATED BALANCE SHEET (COP millions)	Change IFRS vs Col GAAP
<b>ASSETS</b>	1,090,496
Fair value of investment property and restatement of other assets	519,873
Goodwill	431,890
Deferred tax	239,882
Derivatives - Credit Value Adjustment	(24,034 )
Other	(77,115 )
<b>LIABILITIES</b>	196,474
Preferred shares	579,946
Non-controlling interest	(494,387 )
Deferred tax liabilities	407,205
Derivatives - Debit Value Adjustment	(68,800 )
Interests originated from trouble debt restructuring	(83,886 )
Other liabilities	(143,604 )
<b>EQUITY</b>	894,022
Non-controlling interest	500,958
Preferred shares	(579,946 )
Conversion adjustments	605,071
First time adoption and translation adjustment (Other Comprehensive Income)	367,939
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,090,496</b>

**\* Figures under IFRS are not audited and are subject to revision**

ASSETS	COLGAAP	IFRS *	Change (COP)	Change (%)	Explanation
					Increase due to mark-to-market valuation of non-compulsory fixed income securities, formerly classified as held to maturity but now classified as trading securities
Investments	13,677,801	13,020,412	(657,389 )	-4.81 %	Increase due to the valuation of equity securities (less than 20% ownership) Investments in associates and joint ventures were reclassified as other assets
Derivative financial instruments	1,472,879	1,448,845	(24,034 )	-1.6 %	Reduction due to the inclusion of Credit Value Adjustment / Debit Value Adjustment in the valuation of contracts Increased due to first day valuation of deferred accounts
Loans and advances to customers	108,687,061	115,133,130	6,446,069	5.93 %	Increase by reclassification of operating leases into financial leases Financial Leasing-related advance payments reclassified into loans and leases Increase due to the recognition of suspended interest as part of the loan
Allowance for loan and financial leases losses	(4,862,404 )	(4,777,170 )	85,234	-1.75 %	Reduction in allowances. Under Colombian GAAP, allowances are estimated based on expected losses while under IFRS, allowances are estimated based on incurred losses
Goodwill and Intangible assets	4,033,882	4,583,927	550,045	13.64 %	Under IFRS, goodwill remains constant in USD at the level of the date of initial adoption. It is converted to COP each period. Under Colombian GAPP, Goodwill was amortized.
Deferred tax	200,853	440,735	239,882	119.43 %	Increase in deferred tax asset due to differences between fiscal and financial accounting
	3,511,304	1,169,964	(2,341,340)	-66.68 %	

Operating leases, net						Reclassification of some assets from operating leases into financial leases
						Increase due to reclassification of investments in associated companies and joint ventures
						Reduction due to reclassification of investment and properties' re-appraisals as a greater value of the asset
Other assets	10,810,660	7,600,655	(3,210,005)	-29.69	%	Under IFRS, Investment properties are measured using a fair value model and it generated an increase in the recorded amount. Under Colombian GAAP, those assets are subject to depreciation charges
						Increase due to the extension of useful life of assets
						Reduction in financial leasing-related advance payments reclassified into loans and leases

**\* Figures under IFRS are not audited and are subject to revision**



LIABILITIES	COLGAAP	IFRS *	Change (COP)	Change (%)	Explanation
Deposits	95,337,222	95,883,080	545,858	0.57	% Increase due to reclassification of interbank funds into deposits, according to some features of those funds Increase due to the addition of interest payable to the balance of the obligations
Derivative financial instruments	1,230,434	1,161,634	(68,800)	-5.59	% Reduction due to the inclusion of Credit Value Adjustment / Debit Value Adjustment in the valuation of contracts
Borrowings from other financial institutions	13,846,543	13,918,234	71,691	0.52	% Reclassification of interest and fees payable to the balance of financial obligations
Debt securities	13,682,855	13,825,185	142,330	1.04	% Increase due to the addition of interest payable to the balance of the obligations Costs associated to the issuance of securities are recorded as a lower value of the obligation and recognized through the income statement during the term of the securities using the amortized cost method
Preferred shares	-	579,946	579,946	100.00	% Under IFRS, the present value of the minimum dividend on preferred shares is recognized as a liability
Employee benefit - pension plan	108,717	126,379	17,662	16.25	% Under IFRS, employee benefits (including pensions) are recognized using actuarial calculations
Deferred tax liabilities	237,896	645,101	407,205	171.17	% Increase in deferred tax liability due to differences between fiscal and financial accounting
Other liabilities	6,969,453	5,964,422	(1,005,031)	-14.42	% Reclassification of interest payable on deposits, bonds and financial obligations Under IFRS, greater liabilities are recorded due to provisions on contingent liabilities related to transactions such as financial guarantees

**\* Figures under IFRS are not audited and are subject to revision**

**CONSOLIDATED INCOME STATEMENT****December 31, 2014****(COP million)**

	COLGAAP	IFRS *	Change (COP)	Change (%)	
Interest income	9,345,608	9,451,353	105,745	1.13	%
Interest expenses	3,240,787	3,253,669	12,882	0.40	%
Net interest income	6,104,821	6,197,684	92,863	1.52	%
Net provisions	(1,405,054)	(1,052,770)	352,284	-25.07	%
Fees and income from services, net	2,236,895	2,226,695	(10,200 )	-0.46	%
Other operating income	1,152,355	853,463	(298,892)	-25.94	%
Operating expenses	(5,164,655)	(5,075,509)	89,146	-1.73	%
Goodwill amortization	(397,798 )	-	397,798	-100.00	%
Non-operating income	(58,768 )	-	58,768	-100.00	%
Income tax	(589,075 )	(650,502 )	(61,427 )	10.43	%
NET INCOME	1,878,721	2,499,061	620,340	33.02	%

**\* Figures under IFRS are not audited and are subject to revision****MAIN VARIATIONS OF THE INCOME STATEMENT****December 31, 2014****(COP million)**

ITEM	COLGAAP	IFRS *	Change (COP)	Change (%)	Explanation
Interest income	9,345,608	9,451,353	105,745	1.13	% Reclassification of operating leasing revenues that under IFRS are considered financial leases Adjustment on valuation of investments and derivatives Under IFRS, interest on loans are affected by the effective interest rate, including origination fees, etc
	(1,405,054 )	(1,052,770)	352,284	-25.07	%

Net  
provisions

Reduction in the provision expenses. Under Colombian GAAP, allowances are estimated with expected losses while under IFRS, allowances are estimated with incurred losses

Other Operating Income	1,152,355	853,463
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Governance Committee views in the context of the overall composition of the Board of Directors; the absence of any conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the nominee serving as a director; having a majority of independent directors on the Board of Directors; and representation of the long-term interests of the stockholders as a whole and a diversity of backgrounds and expertise which are most needed and beneficial to the Board of Directors and to Western Digital.

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

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

Stockholders who wish to nominate a person for election as a director in connection with an annual meeting of stockholders (as opposed to making a recommendation to the Governance Committee as described above) must deliver written notice to our Secretary within the time periods set forth on page 37 below under "Stockholder Proposals for 2007" and in the manner further described in Section 2.11 of our Bylaws.

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

***Meetings and Attendance.*** During fiscal 2006, there were ten meetings of the Board of Directors, fifteen meetings of the Audit Committee, thirteen meetings of the Compensation Committee, two meetings of the Executive Committee and four meetings of the Governance Committee. In addition, the Equity Awards Committee acted by written consent a total of 28 times during fiscal 2006. Each of the directors attended 75% or more of the total number of meetings of the Board of Directors and the meetings of the committees of the Board of Directors on which he or she served during the period that he or she served.

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

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

## **Director Compensation**

***Director Fees.*** Effective January 1, 2006, non-employee directors receive an annual retainer of \$75,000 payable on January 1 of each year, or if they join the Board of Directors at a later date, they receive a proportion of the annual fee corresponding to the period for which they serve. Effective January 1, 2006, the chairman of the Audit Committee receives an additional annual retainer of \$15,000 and each other member of the Audit Committee receives an additional annual retainer of \$5,000. The chairmen of the Governance Committee and the Compensation Committee also each receive an additional annual retainer of \$5,000. We provide these additional annual retainers for directors serving on the Audit Committee and for the chairmen of the Compensation and Governance Committees in recognition of the additional work required for such service. We also reimburse non-employee directors for reasonable out-of-pocket expenses incurred in attending each Board of Directors or committee meeting; however, beginning January 1, 2006, non-employee directors do not receive a separate fee for each Board of Directors or committee meeting they attend.

Prior to January 1, 2006, each non-employee director received an annual retainer of \$40,000 payable in January. Each non-employee director also received compensation of \$2,500 for each session during which he or she attended a Board of Directors meeting, \$1,500 for any and all committee meetings attended, \$1,250 for each Board of Directors meeting and \$750 for each committee meeting held by telephone conference, plus reimbursement of reasonable out-of-pocket expenses incurred in attending each meeting. In addition, the chairman of each committee of the Board of Directors received an annual retainer of \$5,000.

In addition, on August 5, 2005, the Board of Directors approved the payment of \$2,500 per day (or time aggregating a full work day) for time spent by any independent director outside of Board of Directors or committee meetings assisting with specified succession planning matters, resulting in additional payments aggregating \$32,500 to members of our Board of Directors during fiscal 2006.

Messrs. Massengill, Shakeel and Coyne, who are our employees, do not receive any additional compensation for their service on the Board of Directors or any Board of Directors committee.

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



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At the time of the election for a particular calendar year, we permit each non-employee director to defer between a minimum of \$2,000 and a maximum of 100% of any cash or stock compensation to be paid to the director during that calendar year in accordance with our Deferred Compensation Plan. 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. If a director has made an election pursuant to our Non-Employee Directors Stock-for-Fees Plan to defer common stock in lieu of annual retainer or meeting fees otherwise payable to the director, deferred stock units will be credited to the director's deferred compensation account and such deferred stock units will carry no voting or dividend rights. For amounts deferred in cash pursuant to our Non-Employee Directors Stock-for-Fees Plan, 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 under which we credit interest at a fixed rate for each plan year. We set the fixed interest rate prior to the beginning of the plan year. The fixed interest rate was 5.25% for calendar year 2006, 5.50% for calendar year 2005, and 6.00% for calendar year 2004. Prior to January 1, 2006, pursuant to the Non-Employee Directors Stock-for-Fees Plan, we paid a 25% premium to each non-employee director who elected to defer annual retainer or meeting fees to be received in common stock. Effective January 1, 2006, the Board of Directors has eliminated the payment of this premium.

Non-employee directors have deferred the payment of annual retainer and/or meeting fees pursuant to our Non-Employee Directors Stock-for-Fees Plan and our Deferred Compensation Plan in the last three fiscal years as follows:

<b>Non-Employee Director</b>	<b>2006 Deferred Stock Units</b>	<b>2006 Cash Deferred</b>	<b>2005 Deferred Stock Units(1)</b>	<b>2005 Cash Deferred(2)</b>	<b>2004 Deferred Stock Units(1)</b>	<b>2004 Cash Deferred(2)</b>
Peter D. Behrendt	0	\$ 40,000	0	\$ 0	2,120	\$ 28,750
Kathleen A. Cote	0	0	0	17,250	4,000	41,688
Henry T. DeNero	0	0	0	0	0	0
William L. Kimsey	0	0	0	0	2,120	23,000
Michael D. Lambert	0	0	0	0	0	0
Roger H. Moore	0	0	1,912	0	7,376	0
Thomas E. Pardun	0	42,500	2,306	0	2,120	28,750
<b>Total</b>	<b>0</b>	<b>\$ 82,500</b>	<b>4,218</b>	<b>\$ 17,250</b>	<b>17,736</b>	<b>\$ 122,188</b>

(1) Includes a 25% premium, in the form of shares of our common stock, that each non-employee director received prior to January 1, 2006 under the Non-Employee Directors Stock-for-Fees Plan for any election to defer common stock received in lieu of annual retainer or meeting fees otherwise payable to the director. After December 31, 2005, deferrals of common stock received in lieu of annual retainer or meeting fees are ineligible for a premium payment.

(2) Includes a 15% premium, in the form of cash, that each non-employee director received prior to January 1, 2005 under the Non-Employee Directors Stock-for-Fees Plan for any election 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 ineligible for a premium payment.

The aggregate number of shares of common stock issued to our non-employee directors pursuant to elections under the Non-Employee Directors Stock-for-Fees Plan in each of the last three fiscal years was: (1) 3,639 shares in fiscal 2006 that were previously deferred under the Deferred Compensation Plan, (2) 15,299 shares in fiscal 2005, which includes 13,454 shares of common stock previously deferred under the Deferred Compensation Plan, and (3) 3,392 shares in fiscal 2004. As of December 14, 2006, an aggregate of 161,162 shares representing deferred stock units were credited to deferred compensation accounts of our non-employee directors.

We are authorized to issue a maximum of 400,000 shares of our common stock under the Non-Employee Directors Stock-for-Fees Plan, subject to adjustments for stock splits and similar events. The Board of Directors has the power to suspend, discontinue or, subject to stockholder approval if required by applicable law or regulation, amend the Non-Employee Directors Stock-for-Fees Plan at any time.

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*Non-Employee Director Option Grant Program.* Pursuant to the Non-Employee Director Option Grant Program adopted by our Board of Directors under our 2004 Performance Incentive Plan, effective November 17, 2005, we grant each non-employee director upon initial election or appointment to the Board of Directors an option to purchase a number of shares of our common stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant) equal to \$300,000 on the grant date. After a non-employee director joins the Board of Directors, immediately following each annual meeting of stockholders if he or she has been re-elected as a director at that annual meeting, the non-employee director will receive an option to purchase a number of shares of our common stock that produces an approximate value for the option grant (using a Black-Scholes valuation as of the time of grant) equal to \$100,000 on the grant date. Prior to November 17, 2005, each newly elected or appointed non-employee director automatically received an option grant covering 75,000 shares of our common stock, and continuing non-employee directors automatically received an option grant covering 10,000 shares of our common stock immediately following each annual meeting of stockholders.

The per-share exercise price of option grants under the Non-Employee Director Option Grant Program will equal the fair market value of a share of our common stock on the date of grant, and the options will vest over a period of four years, with 25% vesting on the first anniversary of the grant date and 6.25% vesting at the end of each three-month period thereafter. In addition, all option grants under the Non-Employee Director Option Grant Program will 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 four years of service, 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 performed at least twelve months of service for us after the grant of the option and does not render services to any of our competitors. Shares of common stock that we may issue upon the exercise of stock options granted under the Non-Employee Director Option Grant Program are subject to the applicable share limits specified in our 2004 Performance Incentive Plan.

*Non-Employee Director Restricted Stock Unit Grant Program.* Our Board of Directors has adopted a Non-Employee Director Restricted Stock Unit Grant Program under our 2004 Performance Incentive Plan pursuant to which we grant restricted stock units, or RSUs, to our non-employee directors. Pursuant to this program, effective as of January 1, 2006, we award non-employee directors a number of RSUs each January 1 equal in value (based on the fair market value of an equivalent number of shares of our common stock on the grant date) to \$100,000. We award non-employee directors who are newly elected or appointed to the Board of Directors after January 1 of a given year a prorated award of RSUs for that year. Prior to calendar year 2006, we granted non-employee directors 2,100 RSUs each January 1 following adoption of the plan through calendar year 2004 and 4,527 RSUs through calendar year 2005.

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 when such director ceases to be a director, all unvested RSUs vest immediately upon the director's termination, provided that the director performed at least twelve months of service for us after the grant of the RSU. If a director ceases to be a director for any reason (except removal) prior to meeting the eligibility requirements for accelerated vesting discussed above, then all of the unvested RSUs granted in the first twelve months prior to termination terminate without vesting, 1/3 of all unvested RSUs granted within the 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. These RSUs are generally paid in an equal number of shares of our common stock following the vesting date. If dividends are paid prior to the vesting and payment of the RSUs, the director is credited with additional RSUs as dividend equivalents that are subject to the same vesting requirements as the underlying RSUs. Shares of common stock issued in respect of the Non-Employee Director Restricted Stock Unit Grant Program are subject to the applicable share limits specified in our 2004 Performance Incentive Plan.

We also permit non-employee directors to defer receipt of RSUs payable under the Non-Employee Director Restricted Stock Unit Grant Program pursuant to our Deferred Compensation Plan.

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**EXECUTIVE COMPENSATION**

**The following report of our Compensation Committee addresses our policies for fiscal 2006 as they affected the Chief Executive Officer and our 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 that we specifically request that it be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Securities Exchange Act.**

**Report of the Compensation Committee**

Western Digital's executive compensation program is administered by the Compensation Committee of the Board of Directors. The Committee is responsible for approving all elements of compensation for executive officers, including approving the compensation for the Chief Executive Officer. The Committee also reviews and approves various other compensation policies and matters involving Western Digital, reviews and makes recommendations to the Board of Directors regarding non-employee director compensation, and administers Western Digital's equity and incentive plans, including the 2004 Performance Incentive Plan, the Deferred Compensation Plan, the Incentive Compensation Plan and the 2005 Employee Stock Purchase Plan.

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***

Western Digital's compensation philosophy for executive officers is based on the belief that the interests of the executives should be closely aligned with Western Digital's stockholders. 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 Western Digital's stockholders. Western Digital'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 Western Digital, 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 Western Digital common stock over the long term to further reinforce the linkage between the interests of Western Digital's stockholders and the executives; and

ensure compensation levels are both externally competitive and internally equitable.

In furtherance of these goals, Western Digital's executive compensation policies, plans and programs consist of base salary, annual incentive compensation, long-term incentive awards, including stock options, restricted stock and/or stock unit awards and long-term cash awards that are conditioned upon the satisfaction of performance goals established by the Committee, a deferred compensation plan, certain severance benefits and other benefits.

The Committee considers all elements of compensation and Western Digital's compensation philosophy when determining individual components of pay. Generally, 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 Western Digital's Human Resources staff, the Committee utilizes the services of an independent human resources consultant who provides advice and

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counsel, as well as competitive data from peer companies in competition for similar management talent. The competitive data includes information from direct competitors of Western Digital 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 26).

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

***Executive Compensation Components***

Western Digital'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 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, Western Digital'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.** Western Digital's Incentive Compensation Plan, or ICP, formally links cash bonuses for executive officers and other participating employees to Western Digital'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 2006, these goals were earnings per share and revenue. The bonus pool payable under the ICP for each semiannual period can vary from 0% to 200% of the aggregate target bonuses, depending upon Western Digital'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 and other like awards to be a key component of its overall compensation program. Executive officers, as well as other key employees, are eligible to receive periodic grants of incentive or non-qualified stock options, restricted stock, stock units, performance stock units and/or other cash or equity-based incentive awards pursuant to Western Digital'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 Western Digital. While all executive officers are eligible, the type of award as well as the size of the grant each executive officer receives is determined and approved by the Committee in consultation with the Vice President, Human Resources and the Chief Executive Officer (except in the case of the CEO's own equity and other long-term incentive awards, which are determined and approved solely 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 or stock units, comparable competitive company practices, and the Committee's appraisal of the executive's anticipated long-term future contribution to Western Digital.

In February 2006, based on a review and analysis provided by the Committee's independent consultant, the Committee approved certain changes to Western Digital's long-term incentive program including limiting the participation in the program to employees within senior management. For the most senior participants, including all



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of Western Digital's executive officers, the long-term incentive opportunity includes a combination of restricted stock units, stock options and long-term performance cash, which are divided in accordance with guidelines established by the Committee. Since the Committee's adoption of the new long-term incentive program, the Committee continues to make the determination of the amount of awards in light of the factors described above, and presently intends to make the awards generally consistent with the new long-term incentive program guidelines and structure.

In particular, long-term incentive compensation that may be awarded by the Committee includes:

*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 Western Digital's common stock on the date of grant is an effective incentive for executive officers to create value for Western Digital's stockholders and is an effective means of motivating, retaining and rewarding executives who are in a position to contribute to Western Digital's long-term growth and profitability.

*Restricted Stock and Restricted Stock Units:* The Committee considers awards of restricted stock or restricted stock units to be the key component of compensation when long-term retention is desired. In February 2006, the Committee initiated the award of restricted stock units to employees in lieu of restricted stock in order to enable the recipient to defer the payout of such awards in accordance with Western Digital's Deferred Compensation Plan. By their nature, restricted stock and stock unit awards create both retention and stockholder alignment and, therefore, can be a useful compensation tool.

*Long-Term Cash Awards:* The Committee considers long-term cash awards to be performance based. This program formally links long-term cash awards for executive officers and other participating employees to Western Digital's operating performance over a multiple year timeframe and based upon a pre-determined financial metric approved by the Committee. The total amount payable pursuant to a long-term cash award can vary from 0% to 200% of the target award, depending upon Western Digital's performance against the pre-established goals.

In addition, from time to time, Western Digital may grant cash and/or equity awards to key employees whose retention is deemed critical to Western Digital'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 Western Digital's common stock.

All equity awards and long-term cash awards are granted by the Committee pursuant to Western Digital's 2004 Performance Incentive Plan and certain other cash awards are documented by individual agreements with the executive. The awards vest in accordance with schedules designed to maximize retention value for the executives receiving such awards. In addition, beginning in October 2006, all equity awards will be granted in accordance with a grant policy that Western Digital has implemented to achieve additional process improvements adopted by the Board of Directors in response to the recommendation of a special committee of the Board following a company-initiated, voluntary review of Western Digital's historical stock options. These additional process improvements are designed to improve Western Digital's controls and procedures with respect to the granting of stock options, restricted stock units and other equity awards.

*Severance Benefits.* Executive officers are eligible to receive certain severance benefits under Western Digital's Executive Severance Plan and Change of Control Severance Plan. These plans are described in more detail under Employment Contracts, Termination of Employment and Change in Control Arrangements beginning on page 27.

*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. These benefits are largely those that are offered to the general employee population, with some variation, primarily with respect to eligibility for participation in the 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, Western Digital's Human Resources Department obtains data to help ensure that such benefit plans and programs remain competitive and reports its findings to the Committee.

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***Awarding Incentive Compensation for Fiscal 2006***

The Committee believes that Western Digital delivered exceptional financial performance during fiscal 2006 and, as a result, the value of Western Digital's common stock rose from \$13.76 on July 1, 2005 to \$19.81 on June 30, 2006. This exceptional financial performance is highlighted by:

a 95% year over year increase in earnings per share (from \$0.91 to \$1.77), and

year over year revenue growth of 19% (from \$3.6 billion to \$4.3 billion).

Because Western Digital exceeded all of the financial and other performance goals under the ICP in fiscal 2006, ICP cash awards equivalent to approximately 192% of the target awards were made to executive officers for the six months ended December 30, 2005 and ICP cash awards equivalent to approximately 125% of the target awards were made to executive officers for the six months ended June 30, 2006.

Awards of stock options, restricted stock, restricted stock units and long-term cash awards made to Western Digital's executive officers during fiscal 2006 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 20. The Committee granted the entire award of restricted stock units to Mr. Bukaty and Mr. Milligan, the award of 20,000 restricted stock units to Dr. Moghadam and a portion of the 300,000 shares of restricted stock awarded to Mr. Coyne in fiscal 2006 in consideration of each such executive officer's cancellation of the performance share award granted to the executive officer in fiscal 2005. The Committee awarded additional shares of restricted stock to Mr. Coyne and Dr. Moghadam in fiscal 2006 for retention purposes and additional stock options, restricted stock units and long-term cash awards to Mr. Coyne and Dr. Moghadam in fiscal 2006 in recognition of their contributions to Western Digital and at a level consistent with the long-term incentive program.

In addition, in September 2005, Mr. Coyne received a payment of \$75,000 pursuant to his long-term retention agreement with Western Digital and Dr. Moghadam received a payment of \$112,500 pursuant to his long-term retention agreement with Western Digital. These long-term retention agreements are described in further detail under Employment Contracts, Termination of Employment and Change in Control Arrangements beginning on page 27.

***Chief Executive Officer Compensation***

Mr. Massengill served as Chief Executive Officer until October 1, 2005 when he was succeeded as Chief Executive Officer by Arif Shakeel. Mr. Massengill remains a full-time employee of Western Digital in his position as Chairman of the Board of Directors. The compensation arrangements of Mr. Massengill and Mr. Shakeel are described below and have been designed to encourage both short-term and long-term performance of Western Digital as well as to align their interests with the interests of Western Digital's stockholders. The majority of Mr. Massengill's and Mr. Shakeel's compensation, including stock options and other stock-based compensation and annual incentive bonuses, will ultimately be based upon the financial performance of Western Digital and how that performance is reflected in Western Digital's stock price.

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 determines and approves the Chief Executive Officer's compensation level. On behalf of the Committee, the Governance Committee and the independent members of the Board may, as it and the Committee determine appropriate, provide input to the Committee on the performance of the Chief Executive Officer. Western Digital's overall performance and the Chief Executive Officer's individual performance are critical factors in the Committee's determination.

*Compensation for Mr. Massengill*

During fiscal 2006, Mr. Massengill served as Chief Executive Officer from July 1, 2005 until October 1, 2005 at which time, pursuant to an Employment Agreement he entered into with Western Digital on August 25, 2005,

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Mr. Massengill relinquished his role as Chief Executive Officer and agreed to serve as a full-time employee of Western Digital in his current position as Chairman of the Board of Directors. Pursuant to this agreement and as an inducement for Mr. Massengill to serve as Chairman of the Board, Mr. Massengill continued to receive base salary, paid bi-weekly, at his then-current annual rate of \$800,000 and his target annual bonus under the ICP remained 100% of his base salary, resulting in bonus payments earned by Mr. Massengill during fiscal 2006 under the ICP of \$1,258,000. In addition, for certain equity awards previously granted to Mr. Massengill that were scheduled to vest after the scheduled term of Mr. Massengill's employment with Western Digital and as an inducement to continue to serve until such time, Mr. Massengill agreed that all stock options and restricted stock awards previously granted to him that were scheduled to vest after July 31, 2007 would be cancelled and that all outstanding stock options and shares of restricted stock that were scheduled to vest after January 1, 2007 but on or before July 31, 2007 would accelerate and become vested on January 1, 2007 provided that Mr. Massengill remained employed through January 1, 2007. The additional terms of Mr. Massengill's Employment Agreement with Western Digital are described in further detail under Employment Contracts, Termination of Employment and Change in Control Arrangements beginning on page 27.

*Compensation for Mr. Shakeel*

Mr. Shakeel became Chief Executive Officer of Western Digital effective October 1, 2005 pursuant to an Employment Agreement he entered into with Western Digital on August 25, 2005. Pursuant to this agreement, effective October 1, 2005, Mr. Shakeel's base salary, paid bi-weekly, increased to \$800,000 and his target annual bonus under the ICP increased to 100% of his base salary, resulting in bonus payments earned by Mr. Shakeel during fiscal 2006 under the ICP of \$1,258,000. Mr. Shakeel also received a grant of 1,250,000 shares of restricted common stock of Western Digital. Subject to Mr. Shakeel's continued employment by Western Digital, 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 were to 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. Mr. Shakeel's Employment Agreement with Western Digital has been subsequently amended, and the terms of the amendment are described below under Employment Contracts, Termination of Employment and Change in Control Arrangements beginning on page 27.

The Committee worked with an independent compensation consulting firm in formulating and structuring the compensation package for Mr. Shakeel. While Mr. Shakeel's total direct compensation, including his award of restricted stock, was determined to be between the 50<sup>th</sup> and 75<sup>th</sup> percentile of competitive market benchmark data, a significant portion of Mr. Shakeel's compensation remains subject to possible downside risk given the volatility of Western Digital's stock over short to medium-term periods. In addition, the cancellation of Mr. Shakeel's performance share award as well as portions of his outstanding stock options and restricted stock represented significant lost value for Mr. Shakeel, even though the awards would normally have required Mr. Shakeel to remain employed with Western Digital beyond the term of his employment agreement. Further, in approving the terms of Mr. Shakeel's employment agreement, the Committee also considered the fact that Mr. Shakeel demonstrated an excellent track record of strong operating performance at Western Digital during his tenure as Chief Operating Officer and the need to retain his services.

The Committee continues to believe that, in light of Mr. Shakeel's individual performance and his unique contribution to Western Digital's performance during fiscal 2006, Mr. Shakeel's salary, bonus and restricted stock award for fiscal 2006 were both competitive and fair and reasonable to Western Digital and its stockholders.

*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 a company's chief executive officer or any of its 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 Western Digital's overall compensation objectives and philosophy, executive

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compensation will be structured so as to be deductible for federal income tax purposes to the extent reasonably 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 long-term cash awards to certain of the executive officers are intended to be exempt from the Section 162(m) deductibility limitations. Base salaries, bonuses under the ICP, long-term cash retention awards and restricted stock or stock unit awards with time-based vesting 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 Western Digital and its stockholders since the plans and policies permit Western Digital 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 Western Digital'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\*

Michael D. Lambert, Chairman  
Roger H. Moore  
Thomas E. Pardun

October 30, 2006

\* Our Board of Directors appointed Mr. Pardun as a member of the Compensation Committee on October 30, 2006 to replace Mr. Behrendt who resigned as a member, and as Chairman, of the Compensation Committee on October 7, 2006.

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The following table sets forth the compensation paid for fiscal 2006 to all individuals serving as Chief Executive Officer during fiscal 2006 and to our four other most highly compensated executive officers who were serving as executive officers at the end of fiscal 2006 (collectively, the Named Executive Officers ).

Principal Position	Fiscal Year	Annual Compensation*			Long-Term Compensation Awards			LTIP Payouts	Com
		Salary	Bonus	Other Annual Compensation	Restricted Stock/Stock Unit Awards	Securities Underlying Options/SARs	Payouts		
		(\$)	(\$)(1)	(\$)	(\$)(2)	(#)	(\$)		
Massengill(3)	2006	800,000	1,258,000						
nd Former	2005	776,923	1,300,000		5,615,500	500,000	5,808,600(5)		
utive Officer	2004	726,923(6)				300,000	6,864,200(7)		
l(8)	2006	757,462	1,258,000		17,812,500(9)				
utive Officer	2005	573,077	801,375		3,522,450	250,000	4,149,000(10)		
	2004	571,154(6)				200,000	4,903,000(11)		
ne(12)	2006	547,692	991,525(13)	106,312(14)	4,731,900(9)	315,000			
d	2005	271,154	380,000	88,933(14)	1,221,297	60,000			
ting Officer									
I. Bukaty	2006	381,154	574,188(15)		1,390,260(9)				
President,	2005	345,385	370,063		1,654,020	58,000			
ion, General	2004	324,462(6)				85,000	75,000		
l Secretary									
Moghadam(16)	2006	400,000	521,350(17)		1,318,603(9)	14,017			
President,	2005	328,846	387,500		587,004	58,000			
nology Officer									
Milligan	2006	381,154	471,750		1,318,350(9)				
President and	2005	345,385	405,063(18)		1,633,600	54,000			
cial Officer	2004	307,154(6)	35,000(19)		772,500	135,000			

\* 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.

- (1) Unless otherwise indicated, the amounts disclosed in the Bonus column for 2006 and 2005 were all awarded under our Incentive Compensation Plan.
- (2) At the end of fiscal 2006, the aggregate share amount and dollar value of (i) all unvested restricted stock awards granted to the Named Executive Officers (which consisted of the unvested portion of restricted stock awards granted to the Named Executive Officers in fiscal 2004, 2005 and 2006), and (ii) all unvested restricted stock unit awards granted to the Named Executive Officers (which consisted of the unvested portion of



restricted stock unit awards granted to the Named Executive Officers in fiscal 2006), were as follows (based on the \$19.81 closing price of our common stock on June 30, 2006):

Name	Unvested Restricted Stock Awards		Unvested Restricted Stock Unit Awards*	
	# Shares	\$ Amount	# Units	\$ Amount
Matthew E. Massengill	500,000	\$ 9,905,000		\$
Arif Shakeel**	1,566,667	31,035,673		
John F. Coyne	358,425	7,100,399	30,000	594,300
Raymond M. Bukaty	162,000	3,209,220	58,000	1,148,980
Hossein M. Moghadam	88,473	1,752,650	26,308	521,162
Stephen D. Milligan	216,250	4,283,913	55,000	1,089,550

\* Each restricted stock unit is a non-voting unit of measurement that is deemed for bookkeeping purposes to be equivalent to one outstanding share of our common stock.

\*\* For Mr. Shakeel, these awards include 90,800 shares of restricted stock that were scheduled to vest on January 1, 2008. This amount was cancelled on October 31, 2006 pursuant to an amendment to our employment agreement with Mr. Shakeel.

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- (3) Mr. Massengill resigned as Chief Executive Officer effective October 1, 2005. He remains an executive officer in his capacity as Chairman of our Board of Directors.
- (4) The amounts reported in this column for fiscal 2006 consist of: (i) our matching contributions to the Western Digital Corporation 401(k) Plan on behalf of Mr. Massengill (\$2,000), Mr. Shakeel (\$2,000), Mr. Coyne (\$2,000), Mr. Bukaty (\$2,000), Dr. Moghadam (\$2,000) and Mr. Milligan (\$2,000); (ii) the dollar value of life insurance premiums paid by, or on behalf of, us with respect to term life insurance for the benefit of Mr. Massengill (\$2,150), Mr. Shakeel (\$3,930), Mr. Coyne (\$4,440), Mr. Bukaty (\$2,331), Dr. Moghadam (\$7,475) and Mr. Milligan (\$653); (iii) relocation expenses of \$51,654 relating to Mr. Coyne's relocation from Malaysia to the United States; and (iv) \$16,827 paid by us to Mr. Coyne for unused vacation days in accordance with our vacation policy.
- (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. The Long-Term Retention Agreement pursuant to which Mr. Massengill received the share units is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (6) Our 2004 fiscal year included 27 bi-weekly pay periods.
- (7) This amount represents the payment of two annual installments under a 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. We are reporting the combined amount of \$6,864,200 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 pursuant to which the Mr. Massengill received these share units is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (8) Our Board of Directors promoted Mr. Shakeel to President and Chief Executive Officer effective October 1, 2005. He assumed the sole role of Chief Executive Officer in June 2006 following the promotion of John Coyne to President and Chief Operating Officer. Prior to October 1, 2005, Mr. Shakeel served as our President and Chief Operating Officer.
- (9) We granted these restricted stock and restricted stock unit awards in fiscal 2006 under our 2004 Performance Incentive Plan and we have valued them in the table as of the date of grant. If we pay dividends, dividends would be payable on the shares of restricted stock listed in the table below at the same rate and time and in the same form in which dividends are payable on other outstanding shares of our common stock. No dividends would be payable on the shares of restricted stock units listed in the table below. The number, value as of the date of grant and vesting schedules of these restricted stock and restricted stock unit awards to the Named Executive Officers are as follows:

Name	# Shares Subject to Restricted Stock Award	# Shares Subject to Restricted Stock Units	Per Share Value at Date of Grant	Vesting Schedule
Arif Shakeel*	1,250,000		\$ 14.25	

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John F. Coyne	30,000	20.13	500,000 shares vest on 1/1/2007 and the remaining 750,000 shares vest on 1/1/2008 Vests in full on May 11, 2009
	300,000	13.76	Vests in equal installments on November 17, 2006, 2007 and 2008
Raymond M. Bukaty	58,000	23.97	Vests in full on August 31, 2008
Hossein M. Moghadam	6,308	23.97	Vests in full on February 16, 2009
	20,000	23.97	Vests in full on August 31, 2008
	50,000	13.76	Vests in equal installments on November 17, 2006, 2007 and 2008
Stephen D. Milligan	55,000	23.97	Vests in full on August 31, 2008

\* For Mr. Shakeel, this award includes 90,800 shares of restricted stock that were scheduled to vest on January 1, 2008. This amount was cancelled on October 31, 2006 pursuant to an amendment to our employment

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agreement with Mr. Shakeel. Also pursuant to this amendment, the remaining 659,200 shares of restricted stock that were scheduled to vest on January 1, 2008 will instead vest on June 29, 2007 if Mr. Shakeel remains employed by us on that date.

- (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. The Long-Term Retention Agreement pursuant to which Mr. Shakeel received these share units is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (11) This amount represents the payment of two annual installments under a 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. We are reporting the combined amount of \$4,903,000 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 pursuant to which Mr. Shakeel received these share units is described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (12) Mr. Coyne became an executive officer of Western Digital in fiscal 2005 and therefore we are providing no information prior to such year.
- (13) This amount includes a \$75,000 retention bonus earned by Mr. Coyne pursuant to the Long-Term Retention Agreement described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (14) Consists of tax equalization payments paid by us on behalf of Mr. Coyne with respect to his services in Malaysia.
- (15) This amount includes a one-time discretionary bonus of \$102,438 paid to Mr. Bukaty.
- (16) Dr. Moghadam became an executive officer of Western Digital in fiscal 2005 and therefore we are providing no information prior to such year.
- (17) This amount includes a \$112,500 retention bonus earned by Dr. Moghadam pursuant to the Long-Term Retention Agreement described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements.
- (18) This amount includes a \$35,000 retention bonus earned by Mr. Milligan upon completion of twenty-four months of employment with us.
- (19) This amount consists of a retention bonus earned by Mr. Milligan upon completion of twelve months of employment with us.

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

The following table sets forth information regarding stock options to purchase shares of our common stock granted to the Named Executive Officers during fiscal 2006 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 our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock.

Name	Individual Grants			Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable	
	Number of Securities Underlying Options/SARs* Granted(1)	% of Total Options/SARs* Granted to Employees in Fiscal Year				Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% (\$)	10% (\$)	
Matthew E. Massengill							
Arif Shakeel							
John F. Coyne	65,000	5.51	20.13	5/11/2016	822,877	2,085,332	
	250,000	21.17	13.76	11/17/2015	2,163,398	5,482,474	
Raymond M. Bukaty							
Hossein M. Moghadam	14,017	1.19	23.97	2/16/2016	211,301	535,478	
Stephen D. Milligan							

\* We have not historically granted Stock Appreciation Rights.

- (1) All of these options to purchase shares of our common stock were granted under our 2004 Performance Incentive 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, except that the option grant to Mr. Coyne covering 250,000 shares of our common stock vests in three equal annual installments beginning on the first anniversary of the grant date. All options have a term of 10 years, subject to earlier termination in connection with termination of employment. The Compensation Committee administers the 2004 Performance Incentive Plan and has broad discretion and authority to construe and interpret the plan.

**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 by the Named Executive Officers in fiscal 2006, the number of shares covered by exercisable and unexercisable options held by the Named Executive Officers on June 30, 2006, and the aggregate gains that would have been realized had these options been exercised on June 30, 2006 even though these options were not exercised, and the unexercisable options could not have been exercised, on June 30, 2006.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options/SARs*		Value of Unexercised In-the-Money Options/SARs*	
			At Fiscal Year End (#) Exercisable	At Fiscal Year End (#) Unexercisable	At Fiscal Year End (\$)(2) Exercisable	At Fiscal Year End (\$)(2) Unexercisable
Matthew E. Massengill	802,705	8,780,071	380,900	231,250	2,119,652	2,005,500
Arif Shakeel	237,500	2,798,140	40,625	156,250(3)	318,500	1,321,250(3)
John F. Coyne	52,494	597,190	66,252	375,935	224,224	2,127,474
Raymond M. Bukaty	70,200	1,246,364	138,439	69,561	1,330,921	613,179
Hossein M. Moghadam	60,312	396,502	28,188	73,079	355,653	599,467
Stephen D. Milligan	161,532	2,525,092	28,626	85,842	338,825	823,948

\* We have not historically granted Stock Appreciation Rights.

- (1) We determine this value 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 our common stock on June 30, 2006, the last trading day of fiscal 2006. The closing price of our common stock on that day on the New York Stock Exchange was \$19.81. 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 43,750 shares of common stock subject to stock options granted to Mr. Shakeel that were cancelled October 31, 2006 pursuant to an amendment to our employment agreement with Mr. Shakeel.

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

The following table sets forth the dollar value of a long-term cash award granted to each of Mr. Coyne and Dr. Moghadam during fiscal 2006. Each long-term cash award is subject to our 2004 Performance Incentive Plan and a separate award agreement.

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturity or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans(1)		
			Threshold (\$)	Target (\$)	Maximum (\$)
John F. Coyne		7/01/06 - 6/27/08	0	600,000	1,200,000
Hossein M. Moghadam		12/31/05 - 6/29/07	0	150,000	300,000

- (1) The long-term cash award is valued at a target amount as determined by the administrator of our 2004 Performance Incentive Plan and will be payable in cash at the end of the applicable performance period based upon the achievement of one or more objective performance goals set forth in the applicable award agreement. No amount will be payable if minimum performance levels are not achieved and up to a maximum of 200% of the target cash award will be payable if performance exceeds the target level. In the event the recipient ceases to be employed by us or any of our subsidiaries before the end of the applicable performance period, the long-term cash award will terminate, except that in the event of a recipient's death, a pro rata portion of the long-term cash award will be payable to the recipient's legal representative as further provided in the applicable award agreement. If eligible, each recipient will be permitted to defer payment of the long-term cash award covered by his agreement pursuant to our Deferred Compensation Plan. In addition, subject to certain limitations, 100% of the target award amount (or such greater percentage as the Compensation Committee may deem appropriate in the circumstances) will become payable upon the occurrence of a change in control event.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

During fiscal 2006, the Compensation Committee consisted of Messrs. Behrendt, Lambert and Moore. All members of the Compensation Committee during fiscal 2006 were independent directors and none of them were our employees or former employees or had any relationship with us requiring disclosure under rules of the Securities Exchange Commission requiring disclosure of certain relationships and related party transactions. There are no Compensation Committee interlocks between us and other entities in which one of our executive officers served on the compensation committee (or equivalent) or the board of directors of another entity whose executive officer(s) served on our Compensation Committee or Board of Directors.

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

The following graph compares the cumulative total stockholder return of our 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 June 30, 2006. The graph assumes that \$100 was invested on June 29, 2001 in our common stock and each index and that all dividends were reinvested. We have not declared any cash dividends on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

**TOTAL RETURN TO STOCKHOLDERS**  
**(Assumes \$100 investment on 6/29/01)**

**Total Return Analysis**

	<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>	<b>6/30/06</b>
Western Digital Corporation	100.00	82.28	270.38	212.66	348.35	501.52
S&P 500 Index	100.00	82.01	82.22	97.93	104.12	113.11
Dow Jones US Technology, Hardware & Equipment	100.00	59.18	65.46	84.53	82.20	85.16

**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 we specifically request that it be treated as soliciting material or specifically incorporate 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, our directors and officers and persons who beneficially own more than 10% of our common stock must report their initial ownership of our equity securities and any subsequent changes in that ownership to the Securities and Exchange Commission and the New York Stock Exchange. The Securities and Exchange Commission has established specific due dates for these reports, and we must disclose in this Proxy Statement any late filings during fiscal 2006. To our knowledge, based solely on our review of the copies



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of such reports required to be furnished to us with respect to fiscal 2006 and the written responses to annual directors and officers questionnaires that no other reports were required, all of these reports were timely filed.

### **LEGAL PROCEEDINGS**

The following purported shareholder derivative actions have been filed challenging conduct by certain of our current and former board members and officers in connection with various stock option grants:

*In re Western Digital Corporation Derivative Litigation*, SACV 06-729 AG (RNBx), United States District Court for the Central District of California. On November 29, 2006, the court consolidated under the above caption three federal derivative actions: (i) *Dreyfuss v. Massengill, et al.*, Case No. SACV 06-729 AG (RNBx), United States District Court for the Central District of California, filed August 9, 2006; (ii) *Kastella and Sakamoto v. Mercer, et al.*, Case No. SACV 06-868 CJC (MLGx), United States District Court for the Central District of California, filed September 14, 2006; and (iii) *Mason v. Massengill, et al.*, Case No. CV06-6845 PA (RZx), United States District Court for the Central District of California, filed October 27, 2006. Under the consolidation order, the plaintiffs are expected to file a consolidated amended complaint by December 15, 2006, and the defendants can file a motion to dismiss by January 16, 2007. The jointly-filed complaint in the *Dreyfuss* and *Kastella and Sakamoto* actions asserted claims for violations of Sections 14(a) and 20(a) of the Securities Exchange Act, accounting, breach of fiduciary duty and/or aiding and abetting, constructive fraud, waste of corporate assets, unjust enrichment, rescission, breach of contract, and violation of the California Corporations Code in connection with our option granting practices. The complaint in the *Mason* action asserted claims for violations of Section 14(a) of the Securities Exchange Act, accounting, breach of fiduciary duty and/or aiding and abetting, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets, unjust enrichment, rescission, and violation of the California Corporations Code in connection with our option granting practices. We expect that the consolidated amended complaint will contain similar claims and allegations.

*Lasker v. Massengill, et al.*, Case No. 06-CC-00159, Superior Court of the State of California for the County of Orange, filed August 14, 2006. The complaint asserts causes of action for breach of fiduciary duty, accounting, abuse of control, gross mismanagement, constructive fraud, corporate waste, unjust enrichment, and rescission in connection with our option granting practices. The parties have signed a stipulation requesting that the court consolidate this action with the *Rosen* action referenced below. The *Lasker* and *Rosen* plaintiffs are expected to file jointly an amended complaint by January 29, 2007.

*Rosen v. Shakeel, et al.*, Case No. 06-CC-00234, Superior Court of the State of California for the County of Orange, filed November 6, 2006. The complaint asserts causes of action for unjust enrichment, breach of fiduciary duty, violations of the California Corporations Code, abuse of control, gross mismanagement, waste of corporate assets, accounting, rescission, and constructive trust in connection with our option granting practices. The parties have signed a stipulation requesting that the court consolidate this action with the *Lasker* action referenced above. The *Lasker* and *Rosen* plaintiffs are expected to file jointly an amended complaint by January 29, 2007.

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

#### **Employment Arrangements**

*Mr. Massengill.* On August 25, 2005, we entered into an Employment Agreement with Mr. Massengill pursuant to which he relinquished the role of Chief Executive Officer, effective October 1, 2005, and agreed to continue to serve

as Chairman of our Board of Directors or in such other executive capacity as the Board of Directors may assign. Mr. Massengill's duties as Chairman of the Board 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 our Incentive Compensation Plan is 100% of his base salary, and

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Mr. Massengill will be entitled to participate in our other benefit plans on terms consistent with those generally applicable to our other senior executives. We have cancelled 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, pursuant to the agreement. Provided that Mr. Massengill remains employed by us through January 1, 2007, any of his outstanding stock options and any of his shares of restricted stock 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 has been cancelled.

If we terminate 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 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, we also entered into an Employment Agreement with Mr. Shakeel pursuant to which he became President and Chief Executive Officer on October 1, 2005. We subsequently entered into an amendment to this agreement with Mr. Shakeel on October 31, 2006. In accordance with the agreement, as amended, Mr. Shakeel will serve as our President and Chief Executive Officer through January 1, 2007 and as a Special Advisor to the Chief Executive Officer from January 2, 2007 through June 29, 2007. During such period of employment, Mr. Shakeel's annual base salary is \$800,000, his target annual bonus under our Incentive Compensation Plan is 100% of his base salary, and Mr. Shakeel is entitled to participate in our other benefit plans on terms consistent with those generally applicable to our other senior executives.

Pursuant to the agreement, Mr. Shakeel received an award of 1,250,000 shares of restricted stock on August 25, 2005. An aggregate of 500,000 shares subject to this award will vest on January 1, 2007. The remaining 750,000 shares subject to this award were scheduled to vest on January 1, 2008; however, in accordance with the amendment to Mr. Shakeel's Employment Agreement, 90,800 shares subject to this award were cancelled on October 31, 2006 and the remaining 659,200 shares will instead now vest in full on June 29, 2007 subject to Mr. Shakeel remaining employed by us on that date.

In addition, pursuant to the agreement, we cancelled Mr. Shakeel's outstanding stock options and shares of restricted stock granted prior to August 25, 2005 to the extent that such options and shares of restricted stock were scheduled to vest after December 31, 2007, as well as the entire performance share award granted to Mr. Shakeel in January 2005. In accordance with the amendment to Mr. Shakeel's Employment Agreement, on October 31, 2006, we also cancelled an aggregate of 43,750 shares subject to stock options previously granted to Mr. Shakeel that were scheduled to vest after June 29, 2007 and before January 1, 2008.

If we terminate Mr. Shakeel's employment other than for cause (as defined in the agreement) prior to June 29, 2007, 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 June 29, 2007, and (ii) accelerated vesting of any and all options and other equity-based awards then outstanding and not otherwise fully vested, but only to the extent such awards were otherwise scheduled to vest before June 29, 2007. The Employment Agreement with Mr. Shakeel, as amended, expires June 29, 2007, subject to certain termination provisions.

*Mr. Coyne.* On October 31, 2006, we entered into an Employment Agreement with Mr. Coyne pursuant to which he will become Chief Executive Officer while also retaining his current title as President. In accordance with the agreement, effective January 2, 2007, Mr. Coyne's annual base salary will increase to \$800,000, his target annual bonus under our Incentive Compensation Plan will increase to 100% of his base salary and he will be entitled to participate in our other benefit plans on terms consistent with those generally applicable to our other senior executives.

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Pursuant to the agreement, Mr. Coyne also received two long-term performance cash awards, each of which provide for a cash bonus opportunity with a target amount of \$1,000,000. One cash award corresponds to the performance period July 1, 2006 through June 29, 2007 and the other cash award corresponds to the performance period July 1, 2006 through June 27, 2008. The performance cash awards are each subject to performance objectives determined by our Compensation Committee. In addition, each year during Mr. Coyne's employment as President and Chief Executive Officer commencing after the first day of fiscal year 2008, Mr. Coyne will be eligible for and will receive a performance cash award with a target amount of no less than \$2,000,000. Each such performance cash award will be based on a 24-month performance cycle.

Subject to Mr. Coyne's employment as President and Chief Executive Officer on January 31, 2007, the agreement also provides that Mr. Coyne will receive 1,100,000 restricted stock units under our 2004 Performance Incentive Plan on January 31, 2007. Subject to Mr. Coyne's employment by us, these units will vest and become payable as follows: 110,000 on January 1, 2008, 110,000 on January 1, 2009, 330,000 on January 1, 2010, 110,000 on January 1, 2011 and 440,000 on January 1, 2012. Also on January 31, 2007, Mr. Coyne will receive a stock option under our 2004 Performance Incentive Plan to purchase 120,000 shares of our common stock (subject to proportionate and equitable adjustments for stock splits and similar changes in capitalization). The exercise price per share of the option will equal the fair market value of a share of our common stock on the grant date of the option. If we are in a trading blackout period on January 31, 2007 pursuant to our policies on trading company securities applicable to executive officers generally, our Compensation Committee may, in its discretion, delay the effective date of grant of either or both of the restricted stock unit award or the stock option until after the blackout period ends, in which case the grant of these awards will be made effective by approval of our Compensation Committee promptly following the end of the blackout period (and the date of the option will be the date of this approval).

In addition, pursuant to the agreement, in each of our four fiscal years commencing with fiscal year 2008, Mr. Coyne will receive a stock option to purchase shares of our common stock. The number of shares subject to these stock options will be determined in the good faith discretion of our Compensation Committee based on Mr. Coyne's individual performance, our performance and market benchmark comparisons of compensation data for chief executive officers against both peer group and general industry survey data.

If we terminate Mr. Coyne's employment prior to January 1, 2012 other than for cause (as defined in the agreement) or Mr. Coyne's death or disability, Mr. Coyne will be entitled to the Tier 1 benefits under our Executive Severance Plan or, if applicable, the benefits under our Amended and Restated Change of Control Severance Plan and payment of certain other accrued obligations, including annual base salary and vacation accrued through Mr. Coyne's termination date.

In the event Mr. Coyne remains employed by us as President and Chief Executive Officer through January 1, 2012, then upon Mr. Coyne's termination for any reason other than cause, all stock options granted to Mr. Coyne during the term of his employment agreement will become fully vested and Mr. Coyne will have three years to exercise the options, subject to their earlier expiration. In addition, Mr. Coyne will be eligible to receive payout following the end of each performance period subject to any outstanding performance cash award on a pro-rata basis based on the period of Mr. Coyne's employment by us during the applicable performance period. The Employment Agreement with Mr. Coyne expires January 1, 2012, subject to certain termination provisions.

## **Long-Term Retention Agreements**

*Mr. Massengill and Mr. Shakeel.* We 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 our long-term interests. Pursuant to the Long-Term Retention Agreements, our Board of

Directors granted Mr. Massengill and Mr. Shakeel 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, we paid each executive a cash amount equal to the product of the number of share units that vested and the average closing price of our common stock for the preceding forty-five day period, but in no event more than

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\$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. We have further detailed the amounts paid to each executive under Executive Compensation Summary Compensation Table on page 20.

*Mr. Coyne and Dr. Moghadam.* Effective as of September 21, 2004, we entered into Long-Term Retention Agreements with each of Mr. Coyne and Dr. Moghadam for the purpose of giving each of them an added incentive to advance our interests. Pursuant to these agreements, Mr. Coyne received a cash award in the amount of \$300,000 and Dr. Moghadam received a cash award in the amount of \$450,000. Each award vested and became payable 25% on September 1, 2005 and 30% on September 1, 2006 and the remaining 45% will vest and become payable on September 1, 2007, subject to each executive's continued employment with us. In the event of certain corporate changes (as described in the agreements and including our liquidation or a merger, reorganization or consolidation with another company in which we are not the surviving corporation and the surviving corporation does not assume the award or agree to issue a substitute award in its place) or certain terminations of the executive'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 the executive. Further, in the event that the executive's employment with us terminates due to his death, the next installment of the cash award scheduled to vest will immediately vest and become payable and all other unvested portions of the cash award will be forfeited.

**Executive Severance Plan**

On February 16, 2006, our Board of Directors adopted an Executive Severance Plan. Participants in the Executive Severance Plan include certain of our senior management who are not otherwise currently party to a written employment agreement (other than an agreement providing for at-will employment and for no specified term) and who our Board of Directors or Compensation Committee has designated as a Tier 1 Executive, Tier 2 Executive or Tier 3 Executive. The Compensation Committee has designated each of Mr. Coyne, Mr. Bukaty, Dr. Moghadam and Mr. Milligan as Tier 1 Executives under the Executive Severance Plan. Mr. Massengill and Mr. Shakeel are not eligible to participate in the Executive Severance Plan.

The Executive Severance Plan provides that a participant will receive the following severance benefits in the event of termination of employment without cause (as defined in the Executive Severance Plan):

- (1) a lump sum severance payment equal to the participant's monthly base salary minus applicable taxes over a number of months ranging from 12 months to 24 months depending upon the participant's status as a Tier 1, Tier 2 or Tier 3 Executive;
- (2) a lump sum pro-rata bonus payment minus applicable taxes under our bonus program for the bonus cycle in which the participant's termination date occurs (determined based on the number of days in the applicable bonus cycle during which the participant was employed (not to exceed six months) and assuming we meet 100% of the performance target(s) subject to the bonus award regardless of actual funding by us);
- (3) acceleration of the vesting of the participant's then outstanding stock options and restricted stock or stock unit awards that are subject to time-based vesting requirements to the extent such stock options and restricted stock or stock units awards would have vested and become exercisable or payable, as applicable, if the participant had remained employed for an additional six months;
- (4) outplacement services provided by a vendor chosen by us and at our expense for 12 months following the participant's termination of employment; and

(5) payment by us of applicable COBRA premium payments following expiration of the participant's company-provided medical, dental and/or vision coverage existing as of the participant's termination date for a number of months ranging from 12 months to 24 months depending upon the participant's status as a Tier 1, Tier 2 or Tier 3 Executive, unless and until the participant otherwise becomes eligible for equivalent coverage under another employer's plan.

Payment of severance benefits under the Executive Severance Plan is conditioned upon the participant's execution of a valid and effective release. In addition, no participant is entitled to a duplication of benefits under the Executive Severance Plan or any other severance plan of ours or our subsidiaries.



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**Change of Control Severance Plan**

Effective March 29, 2001, our Board of Directors adopted a Change of Control Severance Plan covering certain of our executives and our subsidiaries' executives, 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 a change of control of Western Digital. The plan provides for two levels of severance benefits. The severance benefits are payable if we or our 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 us 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 was amended in February 2006 to extend its term until March 29, 2011.

For each of the Named Executive Officers and certain other officers 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 us, whichever is higher;
- (2) 100% vesting of any unvested stock options granted to the officer by us;
- (3) extension of the period during which the officer may exercise his or her stock options to the longer of (a) 90 days after the date of termination of his or her employment 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 the officer's 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 our insurance and welfare benefit plans;
- (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, prior to the change in control, the officer 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 our 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 our stock incentive plans, our 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 and each restricted stock or stock unit award may immediately vest. Further, under our Deferred Compensation Plan, in the event of certain change of control events described in the plan, contribution and deferral amounts will immediately vest (to the extent unvested) and will become payable to the participants as provided in the plan.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table gives information with respect to our equity compensation plans as of June 30, 2006, 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 2005 Employee Stock Purchase Plan. With the exception of the Broad-Based Stock Incentive Plan, these plans have each been approved by our stockholders. Following expiration of the Employee Stock Option Plan on November 10, 2004 and approval of the 2004 Performance Incentive Plan by our stockholders on November 18, 2004, no new awards are permitted under the Employee Stock Option Plan, the Broad-Based Stock Incentive Plan and the Stock Option Plan for Non-Employee Directors.

<b>Plan Category</b>	<b>(a)</b> <b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>(b)</b> <b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>(c)</b> <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</b>
Equity compensation plans approved by security holders	10,002,156(1)	\$ 12.1823(2)	18,865,108(3)
Equity compensation plans not approved by security holders	2,578,753(4)	4.8123	0
<b>Total</b>	<b>12,580,909</b>	<b>\$ 10.6520</b>	<b>18,865,108</b>

(1) Of these shares, as of June 30, 2006, 2,581,540 were subject to stock options outstanding under the 2004 Performance Incentive Plan, 6,951,017 were subject to stock options outstanding under the Employee Stock Option Plan, 308,437 were subject to stock options outstanding under the Stock Option Plan for Non-Employee Directors, and 161,162 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. In addition, this amount does not include an aggregate of 3,340,920 shares of restricted stock and restricted stock unit awards that were unvested as of June 30, 2006 under the 2004 Performance Incentive Plan and will vest through September 30, 2009.

(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.

(3) Of these shares, as of June 30, 2006, 14,244,266 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 4,470,624 remained available for future issuance under the 2005 Employee Stock Purchase Plan.

- (4) Does not include an aggregate of 220,956 shares of restricted stock outstanding and unvested as of June 30, 2006 under the Broad-Based Stock Incentive Plan that will vest through September 21, 2008.

### **Broad-Based Stock Incentive Plan**

On September 30, 1999, our Board of Directors approved the Broad-Based Stock Incentive Plan under which options to purchase 2,578,753 shares of our common stock were outstanding as of June 30, 2006 and 220,956 shares of restricted stock remained unvested as of June 30, 2006. This plan was intended to qualify as broadly-based under the New York Stock Exchange stockholder approval policy at the time of its adoption and was not submitted to our stockholders for approval. Following approval of the 2004 Performance Incentive Plan by our stockholders 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.

None of the stock options that we granted under the plan are incentive stock options under Section 422 of the Internal Revenue Code and the term of each outstanding option granted under the plan will not exceed ten years from the date of its grant. All unvested shares of restricted common stock that we awarded under the plan are 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.

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The Compensation Committee of our Board of Directors administers the Broad-Based Stock Incentive Plan. 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 must 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 award, either immediately upon a change of control of Western Digital (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.

The Board of Directors or the Compensation Committee, subject to rules of the New York Stock Exchange requiring stockholder approval, may amend, alter or discontinue agreements evidencing an award made under the plan. 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.

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**AUDIT COMMITTEE**

**The following is the report of our Audit Committee with respect to our audited financial statements for the fiscal year ended June 30, 2006. 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 we specifically request that it be treated as soliciting material or specifically incorporate 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 of Directors in discharging its responsibilities relating to the accounting, reporting, and financial practices of Western Digital 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 Western Digital and its subsidiaries. The Audit Committee acts pursuant to a written charter. Our Board of Directors originally adopted the Audit Committee Charter on September 6, 1995 and most recently approved an amendment of the Charter on March 16, 2005. A copy of the amended charter is available on our 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 Western Digital'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. KPMG LLP, Western Digital's independent registered public accounting firm, is responsible for performing an independent audit of Western Digital's 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 2006, the Audit Committee met a total of fifteen times, five in person and ten via telephone conference. During fiscal 2006, the Audit Committee also met and held discussions with management and KPMG LLP. 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 Western Digital for the fiscal year ended June 30, 2006 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 Western Digital's internal control over financial reporting and the overall quality of Western Digital's accounting principles. In addition, the Audit Committee has received written disclosures and a letter from KPMG LLP regarding its independence from Western Digital 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.

Based upon such reviews and discussions, the Audit Committee has recommended to the Board of Directors of Western Digital that the audited financial statements be included in Western Digital's Annual Report on Form 10-K

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for the fiscal year ended June 30, 2006, for filing with the Securities and Exchange Commission. The Audit Committee also appointed KPMG LLP to serve as Western Digital's independent registered public accounting firm for the fiscal year ending June 29, 2007.

AUDIT COMMITTEE\*

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

November 16, 2006

\* Mr. Pardun also served as a member of the Audit Committee through October 30, 2006.



Table of Contents**PROPOSAL 2****RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The accounting firm of KPMG LLP, certified public accountants, has served as our independent registered public accounting firm since our incorporation in 1970. The Audit Committee of the Board of Directors has again appointed KPMG to serve as our independent registered public accounting firm for the fiscal year ending June 29, 2007. We are not required to submit the appointment of KPMG for stockholder approval, but our Board of Directors has elected to seek ratification of the appointment of our independent registered public accounting firm 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 at the Annual Meeting 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 a new independent registered public accounting firm. We expect one or more representatives of KPMG 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 us to KPMG for the fiscal years ended June 30, 2006 and July 1, 2005:

<b>Description of Professional Service</b>	<b>2006</b>	<b>2005</b>
<b>Audit Fees</b> professional services rendered for the audit of our annual financial statements and the reviews of the financial statements included in our Form 10-Qs	\$ 1,852,000	\$ 1,532,000
<b>Audit-Related Fees</b> assurance and related services reasonably related to the performance of the audit or review of our financial statements(1)	41,000	98,000
<b>Tax Fees</b> professional services rendered for tax compliance, tax advice and tax planning(2)	291,000	262,000
<b>All Other Fees</b> None	0	0

- (1) Audit-Related Fees billed in fiscal 2006 and fiscal 2005 consisted of audits of our distributors, accounting assistance to our subsidiaries, and audits performed in connection with the Western Digital Corporation 401(k) Plan.
- (2) Tax Fees in fiscal 2006 and fiscal 2005 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 our independent registered public accounting firm. The policy requires that KPMG LLP 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 2006 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 our 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 our independent registered public accounting firm for the fiscal year ending June 29, 2007.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 2 TO RATIFY THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JUNE 29, 2007.**

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**STOCKHOLDER PROPOSALS FOR 2007**

*Proposals for Inclusion in Proxy Statement.* Our 2007 Annual Meeting of Stockholders is currently scheduled to be held on November 15, 2007. For your proposal or director nomination to be considered for inclusion in the proxy statement and form of proxy for our 2007 Annual Meeting of Stockholders, your written proposal must be received by our Secretary at our principal executive offices no later than June 13, 2007. Since the expected date of our 2007 Annual Meeting is more than 30 days earlier than the first anniversary of our 2006 Annual Meeting of Stockholders, we have selected June 13, 2007 as a reasonable deadline under Rule 14a-8 of the Securities Exchange Act of 1934 to receive timely stockholder proposals for the 2007 Annual Meeting. If we change the date of the 2007 Annual Meeting by more than 30 days, your written proposal must be received by our Secretary at our principal executive offices a reasonable time before we begin to print and mail our proxy materials for the 2007 Annual Meeting, provided that you also meet the additional deadline for stockholder proposals required by our 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 stockholder 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 our 2007 Annual Meeting (including from the floor if you did not comply with the deadline above for inclusion of your proposal or director nomination in our proxy materials), our Bylaws require that, among other things, stockholders give written notice of any proposal or nomination of a director to our Secretary at our principal executive offices no earlier than the close of business on July 18, 2007 (the one hundred twentieth day prior to the anticipated date of our 2007 Annual Meeting) and no later than the close of business on August 17, 2007 (the ninetieth day prior to the anticipated date of our 2007 Annual Meeting). Notwithstanding the foregoing, in the event that we change the date of the 2007 Annual Meeting from the currently scheduled date of November 15, 2007, written notice by a stockholder must be given no earlier than the close of business 120 days prior to the date of the 2007 Annual Meeting and no later than 90 days prior to the date of the 2007 Annual Meeting or the close of business on the tenth day following the day on which public announcement of the 2007 Annual Meeting is made. Stockholder proposals or nominations for director that do not meet the notice requirements set forth above and further described in Section 2.11 of our Bylaws will not be acted upon at the 2007 Annual Meeting.

**ANNUAL REPORT**

Our 2006 Annual Report on Form 10-K has been mailed to stockholders and posted on the Internet at [www.westerndigital.com](http://www.westerndigital.com) concurrently with the mailing of this Proxy Statement. The information on our web site is not incorporated herein and shall not be deemed to be a part of this proxy solicitation material. **We will provide, without charge, a copy of our 2006 Annual Report on Form 10-K for the year ended June 30, 2006 (including the financial statements but excluding the exhibits thereto) upon the written request of any stockholder or beneficial owner of our 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**

**OTHER MATTERS**

Our Board of Directors does not know of any other matters 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.

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

In accordance with the rules of the Securities and Exchange Commission, we are delivering only one Proxy Statement and Annual Report to multiple stockholders that share the same address unless we have received contrary instructions from one or more of such stockholders. Upon oral or written request, we will deliver promptly a separate copy of this Proxy Statement or the Annual Report to a stockholder at a shared address to which a single copy of this Proxy Statement or the Annual Report was delivered. If you are a stockholder at a shared address to which we delivered a single copy of this Proxy Statement or the Annual Report and you desire to receive a separate copy of this Proxy Statement or the Annual Report, or if you desire to notify us that you wish to receive a separate proxy statement or annual report in the future, or if you are a stockholder at a shared address to which we delivered multiple copies of this Proxy Statement or the Annual Report 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 our Investor Relations at 1-800-695-6399.

If a broker or other record holder holds your Western Digital Corporation 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**

Stockholders 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. Stockholders 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. Stockholders 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 stockholders 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 authenticate stockholders' identities, allow stockholders to give their voting instructions and confirm proper recording of stockholders' instructions. Proxies submitted via the Internet or by telephone must be received by 11:59 p.m. Eastern Standard Time on February 5, 2007. If you submit your proxy or voting instruction by telephone or the Internet you do not 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 stockholders 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. Section 212(c)(2) of the Delaware General Corporation Law permits the granting of proxies electronically.

**EXPENSES OF SOLICITATION**

The accompanying proxy is being solicited on behalf of our Board of Directors. The cost of preparing, assembling and mailing the Notice of Annual Meeting of Stockholders, 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 us. In addition to use of the mails, we may solicit proxies in person or by telephone, facsimile or other means of communication by certain of our directors, officers, and regular employees who will not receive any additional compensation for such solicitation. We have also engaged D.F. King & Co., Inc. to assist us in connection with the solicitation of proxies for the Annual Meeting for a fee that we do not expect to exceed \$12,000 plus a reasonable amount to cover expenses. We have

agreed to indemnify D.F. King & Co. against certain liabilities arising out of or in connection with this engagement. We will also reimburse brokers or other persons holding our common stock in their names or the names of their nominees for the expenses of forwarding soliciting material to their principals.

Lake Forest, California  
December 15, 2006

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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. Your proxy card must be received by February 5, 2007.

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

WDIGI1

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 NOMINEE LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2.**

**PROPOSALS:**

<b>1. ELECTION OF DIRECTORS</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	
01) Matthew E. Massengill	o	o	o	06) William L. Kimsey	o	o	o
02) Peter D. Behrendt	o	o	o	07) Michael D. Lambert	o	o	o
03) Kathleen A. Cote	o	o	o	08) Roger H. Moore	o	o	o

04) John F. Coyne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	09) Thomas E. Pardun	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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05) Henry T. DeNero	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10) Arif Shakeel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. To ratify the appointment of KPMG LLP as the independent registered public accounting firm for Western Digital Corporation for the fiscal year ending June 29, 2007.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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**SIGN AND DATE - Please sign your name(s) exactly as your name(s) appears hereon. All joint owners should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. 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.**

**Signature 1**

Date

**Signature 2**

Date

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**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 either of them to represent and to vote all the shares of common stock of Western Digital Corporation held of record by the undersigned on December 14, 2006, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of Western Digital Corporation to be held on February 6, 2007, 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 December 15, 2006, 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 stockholder. If no direction is made, this proxy will be voted for each of the ten nominees named in Proposal 1 and for Proposal 2. 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)

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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. Your proxy card must be received by February 5, 2007.

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

WDIGI4

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 NOMINEE LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2.**

**PROPOSALS:**

<b>1. ELECTION OF DIRECTORS</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	
01) Matthew E. Massengill	o	o	o	06) William L. Kimsey	o	o	o
02) Peter D. Behrendt	o	o	o	07) Michael D. Lambert	o	o	o
03) Kathleen A. Cote	o	o	o	08) Roger H. Moore	o	o	o

04) John F. Coyne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	09) Thomas E. Pardun	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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05) Henry T. DeNero	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10) Arif Shakeel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2. To ratify the appointment of KPMG LLP as the independent registered public accounting firm for Western Digital Corporation for the fiscal year ending June 29, 2007.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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**SIGN AND DATE - Please sign your name(s) exactly as your name(s) appears hereon. All joint owners should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. 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.**

Signature 1

Date

Signature 2

Date

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December 15, 2006

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 your 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 stockholder approval at the 2006 Annual Meeting of Stockholders to be held on February 6, 2007.

The 2006 Annual Meeting of Stockholders is being held to elect ten directors to serve until our next annual meeting of stockholders and until their successors are duly elected and qualified and to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 29, 2007.

Your Board of Directors unanimously recommends that you vote FOR each of the ten director nominees named in Proposal 1 and FOR ratification of the appointment of KPMG LLP as our independent registered public accounting firm.

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 2006 Annual Meeting of Stockholders.

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 either of them to represent and to vote all the shares of common stock of Western Digital Corporation held of record by the undersigned on December 14, 2006, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of Western Digital Corporation to be held on February 6, 2007, 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 December 15, 2006, 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 stockholder. If no direction is made, this proxy will be voted for each of the ten nominees named in Proposal 1 and for Proposal 2. 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)

