

## Employee Stock Options

Our stock option plans are part of a broad-based, long-term retention program that is intended to attract and retain talented employees and directors and align stockholder and employee interests.

The 2001 Stock Option Plan (2001 Plan) was adopted and replaced the 1991 Stock Option Plan (1991 Plan), which expired in August 2001. In March 2004, stockholders approved an amendment to increase the share reserve of the 2001 Plan by 32 million shares. Options granted under the 1991 Plan remain outstanding until exercised or cancelled. Pursuant to the 2001 Plan, the Board of Directors may grant options to selected employees, directors and consultants to purchase shares of our common stock at a price not less than the fair market value of the stock at the date of grant. The 2001 Plan provides for the grant of both incentive stock options and non-qualified stock options. Generally, options outstanding vest over periods not exceeding six years and are exercisable for up to ten years from the grant date. The 2001 Non-Employee Directors' Stock Option Plan (2001 Directors' Plan) was adopted and replaced the 1998 Non-Employee Directors' Stock Option Plan (1998 Directors' Plan). Options granted under the 1998 Directors' Plan remain outstanding until exercised or cancelled. The 2001 Directors' Plan provides for non-qualified stock options to be granted to non-employee directors at an exercise price of not less than fair market value, vesting over periods not exceeding five years and exercisable for up to ten years from the grant date. The Board of Directors may terminate the 2001 Plan and/or the 2001 Directors' Plan at any time though it must nevertheless honor any stock options previously granted pursuant to the plans.

Information about employee and executive stock option grants from fiscal 2001 through the first nine months of fiscal 2004 are as follows (number of shares in millions):

	<b>Nine months</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Total options granted	15	17	27	16
Less options cancelled	(1)	(4)	(3)	(3)
Net options granted	14	13	24	13
Net grants during the period as % of outstanding shares <sup>(1)</sup>	1.7%	1.6%	3.1%	1.7%
Grants to named executive officers <sup>(2)</sup> as % of total options granted <sup>(1)</sup>	7.4%	6.7%	6.0%	9.6%
Grants to named executive officers <sup>(2)</sup> as % of outstanding shares <sup>(1)</sup>	0.1%	0.1%	0.2%	0.2%
Cumulative options held by named executive officers <sup>(2)</sup> as % of total options outstanding <sup>(1)</sup>	11.4%	10.5%	12.9%	13.7%

<sup>(1)</sup> Calculated based on outstanding shares or options, as applicable, as of the beginning of each period.

<sup>(2)</sup> Named executive officers for the information provided are those listed in our proxy statement dated January 9, 2004, defined by the SEC as the Chief Executive Officer and each of the four other most highly compensated executive officers.

Additional information regarding our stock option plans and plan activity for fiscal 2003, 2002 and 2001 is provided in our Annual Report on Form 10-K for the 2003 fiscal year. See "Note 8 – Employee Benefit Plans."

Information about stock options outstanding at June 27, 2004 with exercise prices less than or above \$69.08 the closing price of our common stock at June 27, 2004, are as follows (number of shares in millions):

<b>Stock Options</b>	<b>Exercisable</b>		<b>Unexercisable</b>		<b>Total</b>	
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Less than \$69.08	53	\$ 22.71	40	\$ 46.78	93	\$ 33.00
Above \$69.08	10	\$ 86.08	3	\$ 82.86	13	\$ 85.37
Total outstanding	<u>63</u>	<u>\$ 33.02</u>	<u>43</u>	<u>\$ 49.24</u>	<u>106</u>	<u>\$ 39.54</u>

Options granted to named executive officers as a group for the three and nine months ended June 27, 2004 were as follows (in millions, except price per share):

<b>Period</b>	<b>Number of Securities Underlying Option Grants</b>	<b>Percent of Total Options Granted</b>	<b>Exercise Price Per Share</b>	<b>Expiration Date</b>	<b>Potential Realizable Values at Assumed Annual Rates of Stock Price Appreciation for Option Term <sup>(1)</sup></b>	
					<b>5%</b>	<b>10%</b>
Three months	-	- <sup>(2)</sup>	-	-	-	-
Nine months	1	7.4% <sup>(2)</sup>	\$ 44.46	11/27/2013	\$ 31	\$ 78

<sup>(1)</sup> Represents gains that could accrue for these options, assuming that the market price of our common stock appreciates over a period of 10 years at annualized rates of 5% and 10%. If the stock price does not increase above the exercise price, the realized value from these options would be zero.

<sup>(2)</sup> Calculated based on options granted to employees during the fiscal year.

Option exercises for the three and nine months ended June 27, 2004 and option values for named executive officers as a group as of June 27, 2004 were as follows (in millions):

<b>Period</b>	<b>Shares Acquired on Exercise</b>	<b>Value Realized</b>	<b>Number of Shares Underlying Unexercised Options at June 27, 2004</b>		<b>Intrinsic Values of Unexercised In-the-Money Options at June 27, 2004 <sup>(1)</sup></b>	
			<b>Exercisable</b>	<b>Unexercisable</b>	<b>Exercisable</b>	<b>Unexercisable</b>
Three months	-	\$20	9	3	\$416	\$66
Nine months	1	\$64	9	3	\$416	\$66

<sup>(1)</sup> These amounts represent the difference between the exercise price and \$69.08, the market price of our common stock at the end of the third quarter of fiscal 2004, for all in-the-money options held by the named executive officers.

### Equity Compensation Plans Approved by Stockholders

Information about our equity compensation plans at June 27, 2004 that were either approved or not approved by our stockholders was as follows (number of shares in millions):

<b>Plan Category</b>	<b>Number of Shares to be Issued Upon Exercise of Outstanding Options</b>	<b>Weighted Average Exercise Price of Outstanding Options</b>	<b>Number of Shares Remaining Available for Future Issuance</b>
Equity compensation plans approved by stockholders <sup>(1)</sup>	106	\$39.64	40 <sup>(2)</sup>
Equity compensation plans not approved by stockholders <sup>(3)</sup>	-	\$1.99	- <sup>(4)</sup>
<b>Total</b>	<b>106</b>	<b>\$39.54</b>	<b>40</b>

<sup>(1)</sup> Consists of six plans: our 1991 Stock Option Plan, 2001 Stock Option Plan, 1998 Non-Employee Directors' Stock Option Plan, 2001 Non-Employee Directors' Stock Option Plan, 2001 Employee Stock Purchase Plan and the Executive Retirement Matching Contribution Plan.

<sup>(2)</sup> Includes nine million shares reserved for issuance under our 2001 Employee Stock Purchase Plan.

<sup>(3)</sup> Consists of two plans: our 1996 Non-Qualified Employee Stock Purchase Plan and the SnapTrack, Inc. 1995 Stock Option Plan. See "Notes to Consolidated Financial Statements, Note 8 – Employee Benefit Plans" in our Annual Report on Form 10-K for the 2003 fiscal year.

<sup>(4)</sup> All shares remaining for future issuance are related to our 1996 Non-Qualified Employee Stock Purchase Plan.